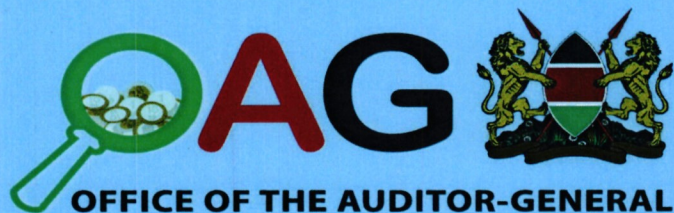
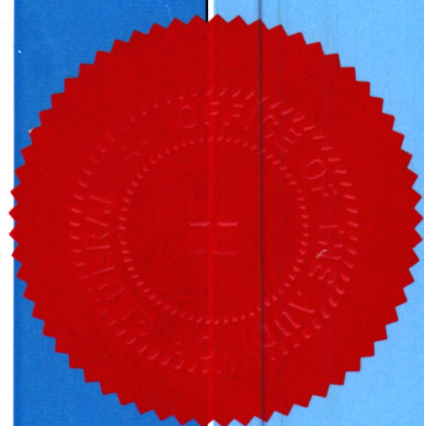


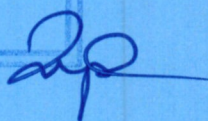
REPUBLIC OF KENYA



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THE NATIONAL ASSEMBLY PAPERS LAID	
REPORT	
DATE:	15 OCT 2020
	DAY: THURSDAY
TABLED BY:	LEADER OF THE MAJORITY
CLERK THE TABLE:	OF R-L. TIAMPATI 

THE AUDITOR-GENERAL

ON

**INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2019**

THE NATIONAL ASSEMBLY	
PAPERS LAID	
DATE: 15 OCT 2020	
TABLED	BY:
CLEARANCE	TABLE:
DAY	

Approved.
BAJ
SNA
15/10/2020



THE NATIONAL ASSEMBLY

TWELFTH PARLIAMENT

(FOURTH SESSION)

NA. L&P.2020/COMM (71)

October 15, 2020

PAPERS LAID

Hon. Speaker, I beg to lay the following Papers on the Table of the House, today Thursday, October 15, 2020 (Afternoon Sitting): -

**REPORTS OF THE DEPARTMENTAL COMMITTEE ON JUSTICE
AND LEGAL AFFAIRS ON:**

- 1) ITS CONSIDERATION OF THE INDEPENDENT ELECTORAL
AND BOUNDARIES COMMISSION (AMENDMENT) BILL
(NATIONAL ASSEMBLY BILL NO. 24 OF 2019)
- 2) ITS CONSIDERATION OF THE REFERENDUM (NO.2) BILL
(NATIONAL ASSEMBLY BILL NO. 14 OF 2020)
- 3) ITS CONSIDERATION OF THE STATUTE LAW
(MISCELLANEOUS AMENDMENTS) BILL (NATIONAL
ASSEMBLY BILL NO. 15 OF 2020)

**(CHAIRPERSON, DEPARTMENTAL COMMITTEE ON JUSTICE
AND LEGAL AFFAIRS)**

Copies to:

The Speaker
Deputy Speaker
The Leader of the Majority Party
The Leader of the Minority Party
The Clerk
Hansard Editor
Hansard Reporters
The Press



THE NATIONAL ASSEMBLY
TWELFTH PARLIAMENT
(FOURTH SESSION)

Approved
Bina
SWA
15/10/2020
October 15, 2020

NA. L&P.2020/COMM (72)

PAPERS LAID

Hon. Speaker, I beg to lay the following Paper on the Table of the House,
today **Thursday, October 15, 2020 (Afternoon Sitting): -**

**REPORT OF THE DEPARTMENTAL COMMITTEE ON LANDS
ON ITS CONSIDERATION OF A PUBLIC PETITION BY THE
RESIDENTS OF VOTA, MUA WARD IN MACHAKOS TOWN
CONSTITUENCY REGARDING THE OBSTRUCTION OF THE
TARMACKING OF KONZA-KATUMANI ROAD**

(CHAIRPERSON, DEPARTMENTAL COMMITTEE ON LANDS)

Copies to:

The Speaker
Deputy Speaker
The Leader of the Majority Party
The Leader of the Minority Party
The Clerk
Hansard Editor
Hansard Reporters
The Press

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- - -



REPUBLIC OF KENYA
TWELFTH PARLIAMENT - (FOURTH SESSION)
THE NATIONAL ASSEMBLY

Hon. Speaker, the following business will be transacted today, **Thursday, October 15, 2020 (Afternoon Sitting)** under the **Preliminary Orders**: -

1. **Under Order No. 2**, you will issue the following Communication on processing of legislative proposals and individual Members' Bills in the House. ✓ CNA-TNA
2. **Under Order No. 3**, you will convey a Message from Senate regarding Bills. ✓ CNA-TNA
3. **Under order No. 4**, the Member for Lurambi (the Hon. (Bishop) Titus Mukhwana Khamala, MP) will be presented a **Petition** on imminent closure of Jomo Kenyatta University of Science and Technology, Kakamega Campus. **(Subject to Speaker's Approval)**
4. **Under Order No. 5**, the following Paper will be laid on the Table of the House by: -
 - a. **The Leader of the Majority Party**
 - i) Legal Notice No. 188 of 2020 relating to the Value Added Tax (Amendment) Invoice) Regulations 2020 from the National Treasury;
 - ii) Report on Study on Perceptions and Experiences of Corruption in the Public Service in Kenya from the National Crime Research Center;
 - iii) The Report of the Auditor-General and the Financial Statements for the Industrial and Commercial Development Corporation for the year ended 30th June, 2018 and the certificates therein;
 - iv) The Reports of the Auditor-General and the Financial Statements in respect of the following institutions for the year ended 30th June, 2019 and the certificates therein: -
 - a. The Judicial Service Commission
 - b. State Law Office and Department of Justice;
 - c. State Law Office and Department of Justice – Official Receiver;
 - d. State Department for Fisheries, Aquaculture and the Blue Economy;
 - e. State Department for Industrialization;
 - f. State Department for Co-operatives;
 - g. Office of the Director of Public Prosecutions; and
 - h. Industrial and Commercial Development Corporation.
 - b. **Chairperson, Departmental Committee on Justice and Legal Affairs**: -
 Reports of the Departmental Committee on Justice and Legal Affairs on its consideration of the following Bills: -

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 LOANS AND ADVANCES (Continued)

As at 30 June 2018	Performing loans Shs'000	Non-performing loans Shs'000	Total Shs'000
Commercial	1,425,746	2,877,102	4,302,848
Property	252,432	499,763	752,195
Industrial	-	2,591,955	2,591,955
Machinery	-	412,333	412,333
Personal loans	-	147,924	147,924
Hire purchase	-	145,427	145,427
Corporate	-	7,427,287	7,427,287
Total small loans	<u>1,678,178</u>	<u>14,101,791</u>	<u>15,779,969</u>
Less: Impairment losses	(10,223)	(13,959,801)	(13,970,024)
Net small loans	<u>1,667,955</u>	<u>141,989</u>	<u>1,809,945</u>
Net large and medium size loans (note 19a (i))	-	21	21
Total net loans at year end	<u>1,667,955</u>	<u>142,010</u>	<u>1,809,966</u>

The weighted average effective interest rate effective on the loans and advances to customers as at 30 June 2019 was 12.8% (2018-12.4%).

	2019 Shs'000	2018 Shs'000
(b) Impairment losses on loans		
At start of the year	13,970,024	13,765,525
IFRS 9 Day 1 adjustment	116,944	-
As restated	14,086,968	-
Provision for large and medium size loans	5,400	5,400
Provision for impairment during the year (note 22)	219,076	215,350
Reversal of provision for impairment during the year	(79,114)	(10,851)
Total provision for impairment on loans	<u>14,232,330</u>	<u>13,975,424</u>
Comprising of:		
Large and medium size		

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs' 000	2018 Shs' 000
21 LOANS AND ADVANCES		

(a) Outstanding loans

(i) Large and medium size loans

Loans to significant companies	5,421	5,421
Less: Provision for impairment losses	(5,400)	(5,400)

Net large and medium loans	21	21
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(i) Small loans

As at 30 June 2019	Performing loans Shs'000	Non-performing loans Shs'000	Total Shs'000
Commercial	1,938,962	2,877,885	4,816,847
Property	-	499,763	499,763
Industrial	-	2,591,955	2,591,955
Machinery	-	412,333	412,333
Personal loans	-	147,924	147,924
Hire purchase	-	145,427	145,427
Corporate	-	7,427,287	7,427,287
Total small loans	1,938,962	14,102,574	16,041,536
Less: Impairment losses	(336,020)	(13,890,910)	(14,226,930)
Net small loans	1,602,942	211,664	1,814,606
Net large and medium size loans (note 20a (i))	-	21	21
Total net loans at year end	1,602,942	211,685	1,814,627

As at 30th June 2019, The Corporation held a gross loan portfolio of Shs. 33billion comprises of fully impaired loans amounting to Shs. 31billion and performing loans component of Shs. 2billion.

The non performing loan portfolio is attributed to implementation of GOK policies between 1970 and 1999 which were geared towards economic empowerment of Kenyans as opposed to commercial considerations. A full provision for losses on this portfolio has been made and Board approval for write-off granted.

The Corporation has written to The National Treasury seeking approval for write-off of this portfolio from the financial statements.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs' 000	2018 Shs' 000
19 QUOTED INVESTMENTS – FVTOCI		
At start of the year	5,843,621	6,551,046
Fair value loss	(849,439)	(707,425)
Impairment loss in the year (note 22)	(34,272)	-
Disposal	(112,025)	-
Loss on disposal	(10,781)	-
At end of the year	<u>4,837,104</u>	<u>5,843,621</u>
20 TRADE AND OTHER RECEIVABLES		
Recoverable expenses from associate companies	29,356	24,405
Dividends receivable	227,664	122,546
Receivable from Uchumi House tenants	226,311	114,918
Other debtors	221,707	166,783
	<u>705,038</u>	<u>428,652</u>
Gross trade and other receivables	705,038	428,652
Less: Provision for impairment losses	<u>(315,285)</u>	<u>(186,900)</u>
Net trade and other receivables	<u>389,753</u>	<u>241,752</u>
The movement in the provision for impairment losses of debtors is as follows:		
At start of year	186,900	156,012
IFRS 9 Day 1 adjustment	<u>(4,834)</u>	<u>-</u>
As restated	182,066	-
Movement during the year	<u>133,219</u>	<u>30,888</u>
At end of the year	<u>315,285</u>	<u>186,900</u>
The movement in provision is made up of:		
Provision of preferential dividend receivable (note 22)	51,964	19,967
Provision for Uchumi House debtors (note 22)	58,573	4,192
Provision for other debtors (note 22)	<u>22,682</u>	<u>6,729</u>
	<u>133,219</u>	<u>30,888</u>



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs'000	2018 Shs'000
18 UNQUOTED INVESTMENTS - FVTOCI		
Valuation		
At start of the year	11,480,766	9,897,946
Additions	-	21,576
Disposals	-	(32)
Fair value (loss)/gain	(3,707,550)	1,561,276
At end of the year	7,773,216	11,480,766
Impairment		
At start of the year	(367,608)	(190,164)
Impairment loss in the year (note 22)	(111,000)	(177,444)
At end of the year	(478,608)	(367,608)
Net carrying value at end of year	7,294,608	11,113,158

Managed funds

Grants and loans include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya.

	2019 Shs' 000	2018 Shs' 000
Kenatco Transport Limited (in receivership) - Equity	6,900	6,900
Kisumu Cotton Mills (1983) Limited (in liquidation) - Equity	19,500	19,500
Pan African Vegetable Products Limited (in liquidation) - Equity	1,265	1,265
Pan Vegetable Processors Limited - Equity	15,805	15,805
South Nyanza Sugar Limited - Equity	10,000	10,000
Gross amount	53,470	53,470
Less: Provision for impairment	(53,470)	(53,470)
Net amount	-	-

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs'000	2018 Shs'000
15 INVESTMENT PROPERTY		
At the start of the year	2,112,141	2,050,087
Additions	1,178,898	-
Fair value gain	103,961	62,054
	<u>3,395,000</u>	<u>2,112,141</u>
At the end of the year	<u>3,395,000</u>	<u>2,112,141</u>

The fair value model has been applied for the investment property, an internal professional valuer determined the fair value of the investment property as at 30 June 2019 based on open market method.

16 INVENTORY- UNITS FOR SALE		
Property – Nyali	439,286	586,497
- Kizingo	340,519	383,825
	<u>779,805</u>	<u>970,322</u>
	<u>779,805</u>	<u>970,322</u>

Inventory represents transfers of Nyali and Kizingo development from investment property following the commencement of development of residential units with a view to sell.

Movement of inventory balances during the year is as below;

At the start of the year	970,322	934,218
Additions	-	36,104
Disposals	(179,502)	-
Impairment of inventory	(11,015)	-
	<u>779,805</u>	<u>970,322</u>
At the end of the year	<u>779,805</u>	<u>970,322</u>

17 GOVERNMENT SECURITIES – AT AMORTISED COST		
At start of year	12,555	17,010
Bond maturity during the year	-	(4,455)
	<u>12,555</u>	<u>12,555</u>
At end of year	<u>12,555</u>	<u>12,555</u>

The running Government of Kenya bond will mature in August 2019 with a maturity value of Shs 12,554,993. The effective interest rate on treasury bonds at 30 June 2019 was 7.3 % (2018: 8.7%).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14	PROPERTY AND EQUIPMENT	Land and buildings Shs'000	Motor Vehicles Shs'000	Furniture & equipment Shs'000	Total Shs'000
	Year ended 30 June 2019				
	Cost / valuation				
	At start of year	65,000	19,884	83,822	168,706
	Additions	-	-	7,950	7,950
	Revaluation	13,500	-	-	13,500
	Write offs	-	-	(5,848)	(5,848)
	At year end	<u>78,500</u>	<u>19,884</u>	<u>85,924</u>	<u>184,308</u>
	Depreciation				
	At start of year	-	7,332	46,670	54,002
	Charge for the year	656	3,283	7,246	11,185
	Eliminated on valuation	(656)	-	-	(656)
	Eliminated on write off	-	-	(2,740)	(2,740)
	At year end	<u>-</u>	<u>10,615</u>	<u>51,176</u>	<u>61,791</u>
	Net book value at year end	<u>78,500</u>	<u>9,269</u>	<u>34,748</u>	<u>122,517</u>
	Year ended 30 June 2018				
	Cost / valuation				
	At start of year	56,997	17,339	72,462	146,798
	Additions	7,341	6,732	11,360	25,433
	Revaluation	662	-	-	662
	Disposals	-	(4,187)	-	(4,187)
	At year end	<u>65,000</u>	<u>19,884</u>	<u>83,822</u>	<u>168,706</u>
	Depreciation				
	At start of year	7,276	9,582	37,233	54,091
	Charge for the year	956	1,937	9,437	12,330
	Eliminated on valuation	(8,232)	-	-	(8,232)
	Disposal	-	(4,187)	-	(4,187)
	At year end	<u>-</u>	<u>7,332</u>	<u>46,670</u>	<u>54,002</u>
	Net book value at year end	<u>65,000</u>	<u>12,552</u>	<u>37,152</u>	<u>114,704</u>

Uchumi House Building was revalued as at 30 June 2019 by an internal valuer, Paul A. Okwiri, on an open market on the basis of highest and best use. Paul is a registered member of the Institute of Surveyors of Kenya. He has appropriate qualifications and relevant and recent experience in the fair value measurement of properties.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 TAXATION (CONTINUED)

(b) Reconciliation of tax charge to the expected tax based on accounting profit

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

	2019 Shs'000	2018 Shs'000
Profit before taxation	778,445	222,750
Tax at using the applicable taxation rate at 30%	233,533	66,825
Tax effects of :-		
Income not subjected to tax	(479,462)	(140,360)
Expenses not deductible for tax	15,791	9,856
Under provision of current tax in prior year	-	6,082
Movement in deferred tax not recognised in the year	247,600	108,857
Income tax expense from rental income taxed separately	75,625	-
Taxation charge	140,446	51,260

(c) Taxation (recoverable)/payable

At start of year	10,079	(948)
Taxation charge	75,625	45,178
Prior year under provision for current tax	-	6,082
Tax paid	(84,355)	(40,233)
At end of year	1,349	10,079

13 INTANGIBLE ASSETS

Cost

At start of year	51,012	44,612
Additions	24,566	6,400

At end of year	75,578	51,012
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Amortisation

At start of year	42,363	39,717
Charge for the year	4,261	2,646

At end of year	46,624	42,363
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Net book value	28,954	8,649
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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs'000	2018 Shs'000
10(b) STAFF COSTS		
Salaries and allowances of permanent employees	195,460	195,658
Staff welfare	35,803	28,919
Other pension contributions	15,183	14,955
Compulsory National Health Insurance schemes	-	1,686
Wages of temporary employees	1,394	764
Compulsory National Social Security schemes	145	137
Leave pay and gratuity provisions	401	-
	<u>248,386</u>	<u>242,119</u>
The average number of employees at the end of the year was:		
Permanent employees - Management	56	57
Temporary and contract employees	-	4
	<u>56</u>	<u>61</u>
11 FINANCE COSTS		
Interest expense on loans	<u>8,448</u>	<u>8,448</u>
12 TAXATION		
(a) Taxation charge		
Current income tax based on adjusted profit at 30%	75,625	45,178
Under-provision of current tax prior year	-	6,082
Deferred tax credit (note 26)	(182,779)	(108,857)
Movement in deferred tax not recognised in the year	247,600	108,857
	<u>140,446</u>	<u>51,260</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2019 Shs'000	2018 Shs'000
7 SALE OF PROPERTY		
Sale of property	197,050	-
8 OTHER INCOME		
Write back on loans and grants from Government of Kenya (note 25)	459,572	-
Fair value gains on investment property (note 15)	103,961	62,054
Write back on loans and advances (note 21(b))	79,114	10,851
Gain on disposal of property and equipment	-	1,339
Gain on disposal of shares	70,241	7,192
Sundry income	5,322	13,190
	718,210	94,626
9 COST OF SALES		
Cost of sales – property	179,503	-
10(a) ADMINISTRATION COSTS		
Staff costs (Note 10b)	248,386	242,119
Directors' expenses and emoluments	17,748	11,507
Rent and rates	3,014	1,422
Bank charges	480	464
Electricity and water	17,652	17,793
Publicity and advertising	7,982	8,286
Transportation, travelling and subsistence	33,262	14,824
Printing, stationery and photocopying	2,672	1,980
Motor vehicle operating expenses	1,889	1,334
Insurance costs	4,840	4,049
Professional expenses	6,028	4,022
Donations and other contributions	-	379
ICT expenses	11,291	6,144
Auditors' remuneration	4,056	3,860
Legal expenses	5,312	20,006
Uchumi House security	8,617	7,720
VAT and other taxes	10,262	8,627
Property administration expenses	90,590	9,788
Repairs and maintenance	5,501	12,153
Subscriptions	1,757	2,253
Other operating expenses	23,421	15,457
	531,868	394,187



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 FINANCIAL ASSETS AND LIABILITIES AND OTHER FAIR VALUES

Fair value hierarchy

The Corporation specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

a) Level 1

Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

b) Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

c) Level 3

Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible. The following table shows an analysis of financial and non-financial instruments reflected at fair value by level of the fair value hierarchy.

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
30 June 2019				
Financial assets:				
Unquoted equity instruments	-	7,294,608	-	7,294,608
Quoted equity instruments	4,837,104	-	-	4,837,104
Investment property	-	-	3,395,000	3,395,000
	=====	=====	=====	=====
30 June 2018				
Financial assets:				
Unquoted equity instruments	-	11,113,190	-	11,113,190
Quoted equity instruments	5,843,621	-	-	5,843,621
Investment property	-	-	2,112,141	2,112,141
	=====	=====	=====	=====

	2019 Shs'000	2018 Shs'000
6 OPERATING INCOME		
Dividends	558,611	444,193
Interest on loans and advances	219,136	215,890
Application fees	11,709	12,579
Management & advisory services	9,022	11,019
Rental income	233,157	156,457
Interest on deposits	75,397	129,279
	=====	=====
	1,107,032	969,417

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

Company security	No. of shares	30 June 2019		No. of shares	30 June 2018	
		Market price 2019	Market value 2019 Shs'000		Market price 2018 Shs	Market value 2018 Shs'000
<i>Main Investment Market Segment</i>						
Insurance						
Jubilee Holdings Limited	-	-	-	19,965	505	10,082
Investment						
Centum Investments Limited	152,847,897	31.40	4,799,423	152,847,897	37	5,655,372
Manufacturing & Allied						
British American Tobacco Limited	-	-	-	17,000	600	10,200
Eveready Batteries Kenya Limited	36,583,575	1.03	37,681	36,583,575	1.50	54,875
East African Breweries Limited	-	-	-	21,300	218	4,643
Telecommunication & Technology						
Safaricom Limited	-	-	-	2,975,200	29.50	87,768
Total			4,837,104	5,843,621		

At 30 June 2019, if the prices of all quoted equity investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs 241,855,200 (2018: Shs 327,552,328) higher/lower.

At 30 June 2019, if the prices earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Shs 364,730,400 (2018: Shs 485,389,750) higher/lower.

D) CAPITAL RISK MANAGEMENT

The Corporation is governed by the Industrial and Commercial Development Corporation Act Cap 445, Laws of Kenya, which does not provide for a specific capital structure.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

Company security	No. of shares	30 June 2019		No. of shares	30 June 2018	
		Market price	Market value		Market price	Market value
		2019 Shs	2019 Shs'000		2018 Shs	2018 Shs'000
Main Investment Market Segment						
Banking						
Barclays Bank of Kenya Limited	-	-	-	156,800	11.40	1,787
Standard Chartered Bank Limited	-	-	-	14,700	198	2,910
Commercial & Services						
Nation Media Group Limited	-	-	-	19,272	90	1,734
Uchumi Supermarkets Limited	7,288,472	0.51	-	7,288,472	1.45	10,568
Kenya Airways PLC	-	-	-	53,500	10.65	142
Energy & Petroleum						
Total Kenya Limited	-	-	-	93,600	29.75	2,785
Kenya Power & Lighting Company Limited	-	-	-	109,800	6.85	752

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

(i) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Corporation. It is unusual for a Corporation's interest to completely be matched due to the nature of business terms and types.

Exposure to interest rate risk

The Corporation is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The Finance and Investment Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the statement of financial position date.

Interest rate risk – stress test-as at 30 June 2019

	Amount Sh'000	Scenario 10% increase in net margin Sh'000	Scenario 10% decrease in net margin Sh'000
Profit before taxation	<u>778,445</u>	<u>856,289</u>	<u>700,600</u>

Interest rate risk – stress test-as at 30 June 2018

	Amount Sh'000	Scenario 10% Increase in net margin Sh'000	Scenario 10% Decrease in net margin Sh'000
Profit before taxation	<u>222,750</u>	<u>245,025</u>	<u>200,475</u>

(ii) Price risk

The Corporation's private equity holdings are valued according to the Private Equity and Venture Capital Guidelines and also in line with IFRS 13, which set out the valuation methodology for fair valuation. Valuation is relatively subjective and may change from time to time. In addition, the valuation is also affected by the volatility of the stock prices since the Corporation uses the earnings multiple method which entails the use of the share prices of similar/comparable quoted companies among other components.

Valuation risks are mitigated by comprehensive quarterly reviews of the underlying investments by management every quarter. The appropriateness of the investment valuations are then considered by the Risk and Audit committee.

Quoted equity is valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by having a diverse portfolio that ensures the losses in one sector are offset by the gains in other sectors.

Investment holding period risk

Over 45% of the Corporation's investments are private equity investments, which are not traded on any formal exchange. Disposal of these investments is constrained in many instances by pre-emptive rights, shareholder agreements and the absence of willing trade buyers or an active secondary market. The timing of realised proceeds on disposal may pose a risk to the Corporation. The Corporation mitigates this risk by seeking influence the investee company's operations through large shareholding or board representation. The Corporation also seeks compensation for this risk through high return hurdles during the investment appraisal and laying emphasis on dividend generating potential. However, the Corporation has got no fixed time horizon for its investments, and does not enforce exit options on investments as it believes current practice makes it easier to acquire attractive investments.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

C) MARKET RISK (CONTINUED)

The table below summarises the exposure to interest rate risks. Included in the table are the Corporation's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Corporation does not bear an interest rate risk on off financial position items.

	Due between 0 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
2019:				
Financial assets	Shs'000	Shs'000	Shs'000	Shs'000
Short term deposits	310,499	-	-	310,499
Investment in Government securities	12,555	-	-	12,555
Loans	-	1,317,317	497,310	1,814,627
Total financial assets	<u>323,054</u>	<u>1,317,317</u>	<u>497,310</u>	<u>2,137,681</u>
Financial liabilities				
Grants and Government of Kenya loans	-	-	(391,850)	(391,850)
Total financial liabilities	<u>-</u>	<u>-</u>	<u>(391,850)</u>	<u>(391,850)</u>
Interest sensitivity gap	<u>323,054</u>	<u>1,352,400</u>	<u>105,460</u>	<u>1,745,831</u>
2018:				
Financial assets				
Short term deposits	568,613	-	-	568,613
Investment in Government securities	-	12,555	-	12,555
Loans	235,015	1,425,746	149,205	1,809,966
Total financial assets	<u>809,628</u>	<u>1,438,301</u>	<u>149,205</u>	<u>2,391,134</u>
Financial liabilities				
Grants and Government of Kenya loans	-	-	(842,974)	(842,974)
Total financial liabilities	<u>-</u>	<u>-</u>	<u>(842,974)</u>	<u>(842,974)</u>
Interest sensitivity gap	<u>809,628</u>	<u>1,438,301</u>	<u>(693,769)</u>	<u>1,548,160</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

B) LIQUIDITY RISK (CONTINUED)

30 June 2019	0 - 12 months (Shs' 000)	1 - 5 years (Shs' 000)	Over 5 years (Shs' 000)	Total (Shs' 000)
Liabilities				
Grants and loans	-	-	391,850	391,850
Deferred revenue	18,524	-	-	18,524
Trade and other payables	338,764	-	-	338,764
Dividends payable	33,258	-	-	33,258
Total liabilities	390,546	-	391,850	782,396
30 June 2018				
Liabilities				
Grants and loans	-	-	842,974	842,974
Deferred revenue	195,025	-	-	195,025
Trade and other payables	115,036	-	-	115,036
Dividends payable	38,730	-	-	38,730
Total liabilities	348,791	-	842,974	1,191,765

The gross nominal inflow/(outflow) disclosed is the contractual, undiscounted cash flow on the financial liability or commitment.

C) MARKET RISK

(i) Interest rate risk

The Corporation is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances to customers are either pegged to the Corporation's base lending rate or Treasury bill rate.

The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Corporation also invests in fixed interest rate instruments issued by the Central Bank of Kenya. Interest rate on customer deposits is negotiated between the Corporation and the customer. The Corporation has the discretion to change the rates in line with changes in market trends.

The board of directors has assigned the authority for the management oversight of the interest rate risk policy to the Finance and Investment Committee. The committee, reviews various liquidity and funding decisions and related risks.

Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

iii) Amounts arising from ECL

Modified financial assets

There were no financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

iv) Concentration of credit risk

The Corporation monitors concentrations of credit risk by type or purpose of the loan. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below.

(i) Advances to customers

	2019		2018	
	Shs '000	%	Shs '000	%
Commercial	1,814,627	100	1,667,955	92
Property	-	-	142,010	8
Total	1,814,627	100	1,809,966	100

v) Offsetting financial assets and financial liabilities

There were no financial assets and financial liabilities that were offset in the Corporation's statement of financial position and none are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

B) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation cannot obtain the necessary funds to meet its obligations associated with financial instruments as they fall due. The amount of liquidity required depends very much on the Corporation's ability to forecast demand and its access to outside sources. The board of directors has assigned the authority for the management oversight of the liquidity risk policy to the Finance and Investment Committee. The committee, as necessary review various liquidity and funding decisions and related risks. Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.

Liquidity risk also relates to the risk that the Corporation would miss out attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the available for sale quoted investments can be converted to cash when funds are required.

The table below shows the undiscounted cash outflows on the Corporation's financial liabilities based on their contractual maturity dates and the discounted cash inflows on the Corporation's financial assets based on their expected maturity dates. The Corporation's expected cash flows on these instruments could vary significantly from this analysis.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

Loans and advances to customers	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Loss allowance as at 30 June 2018				10,223
Restatement of the prior year				116,944
Loss allowance as at 1 July 2018	8,027		119,140	127,167
Changes in the loss allowance:				
– Transfer to stage 1	(2,348)		2,348	
– Transfer to stage 2				
– Transfer to stage 3		11,816	(11,816)	
New financial assets originated	13,461	58,648	7,101	79,210
Financial assets derecognized				
Financial Assets remeasured	(5,574)	(10,670)	145,887	129,643
Loss allowance as at 30 June 2019	13,566	59,794	262,660	336,020

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

Loans and advances to customers	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Gross carrying amount as at 30 June 2018 & 1 July 2018	1,140,917	285,928	393,344	1,820,189
Changes in the loss allowance:				
– Transfer to stage 1	(145,747)		145,747	
– Transfer to stage 2				
– Transfer to stage 3		13,282	(13,282)	
New financial assets originated	323,028	233,313	260,614	816,955
Financial assets that have been remeasured	(495,878)	(68,125)	77,506	(486,497)
Gross carrying amount as at 30 June 2019	822,320	464,398	863,929	2,150,647

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Measurement of ECL

For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Corporation derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Corporation measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Corporation considers a longer period. The maximum contractual period extends to the date at which the Corporation has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts facilities that include both a loan and an undrawn commitment component, the Corporation measures ECL over a period longer than the maximum contractual period if the Corporation's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Corporation's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Corporation can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Corporation becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Corporation expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- remaining term to maturity;
- industry;

The bankings are subject to regular review to ensure that exposures within a particular financial institution remain appropriately homogeneous.

For portfolios in respect of which the Corporation has limited historical data, external benchmark information is used to supplement the internally available data. The Corporation does not have portfolios for which external benchmark information represents a significant input into measurement of ECL.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Corporation renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Corporation's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Corporation Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Corporation's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Corporation's ability to collect interest and principal and the Corporation's previous experience of similar forbearance action. As part of this process, the Corporation evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Corporation estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Incorporation of forward-looking information (continued)

Periodically, the Corporation carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Corporation's senior management.

The Corporation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk is GDP growth which generally incorporates other indicators such as inflation, exchange rates etc. Another important source of information used is the sector wise or industry wise total loans and advances and non-performing loans and advances as experienced by the banking industry. This information is published by the Central Bank of Kenya annually. The exposures are classified sector wise and credit losses computed for each sector individually.

The economic scenarios used as at 30 June 2019 included the following key indicators for Kenya for the years ending 31 December 2019 to 2023.

	Scenario	2019	2020	2021	2022	2023
Cumulative macro-economic conditions	Base	50%	50%	50%	50%	50%
Cumulative macro-economic conditions	Upside	20%	20%	20%	20%	20%
Cumulative macro-economic conditions	Downside	30%	30%	30%	30%	30%

Predicted relationships between the key indicators and sector wise default and loss rates of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

Uncertain events

Uncertain events that are relevant to the risk of default occurring but for which, despite best efforts, the Corporation is not able to estimate the impact on ECL because of lack of reasonable and supportable information include:

1. Impact of the slowing down global economy on the growth rate of the Kenyan Economy
2. The unpredictable volatility of the global oil prices and its impact on the Kenyan Economy. This is specially the case when Kenya is a net importer.
3. Unpredictable weather conditions considering Kenya is a predominately agricultural economy.
4. The unpredictable political environment both local and regional which has a direct impact on economic performance.
5. The rising impact of the Kenya's debt to GDP ratio and its impact on the economic output.

Key Assumptions

In all the three scenarios of Base, Best and Worst case, positive GDP growth is assumed. This assumption is well reasoned given the tested resilience strength of the Kenyan Economy during distress times.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Inputs, assumptions and techniques used for estimating impairment (continued)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Corporation determines a three months probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Corporation monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Corporation considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Corporation.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Corporation considers indicators that are:
 - qualitative: e.g. breaches of covenant;
 - quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Corporation; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Corporation for regulatory capital purposes.

Incorporation of forward-looking information

The Corporation incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Corporation formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside – Best Case and one downside – Worst Case, with Best Case having a 20% probability of occurring and Worst Case having a 30% Probability of occurring. The base case is aligned with information used by the Corporation for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Corporation operates, supranational organisations such as the International Monetary Fund and selected private-sector and academic forecasters.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

Generating the term structure of PD

The Corporation collects sector wise performance and default information about its credit risk exposures analysed by type of product and borrower. For some portfolios e.g government securities, information purchased from external credit reference agencies is also used.

The Corporation employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The method of PD parameter estimation is based on the ratio of $PD = \text{Gross Non-Performing Loan} / \text{Net Loans}$. The total gross GDP is projected from the previous year gross GDP using the GDP projection. The gross GDP per sector is then obtained by taking the ratio of the gross GDP per sector for the previous year and the total gross GDP for the previous year and multiplying that by the total gross GDP for the current year. The gross loans per sector is obtained by taking the ratio of the gross loans per sector for the previous year and the gross GDP per sector for the previous year and multiplying that by the gross GDP per sector for the current year. The gross NPLs are projected using the regression coefficients for each of the sector. A regression is run on the gross NPLs against gross GDP for each of the sectors. The Corporation uses one approach of generating PDs for all the loan portfolios.

Determining whether credit risk has increased significantly

The Corporation assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the sectorial information.

The Corporation considers credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being rated as "watch". The Credit Committee reviews the loans periodically and the movement in the probability of default (PD) between the reporting period and initial recognition date of the loan to determine whether there has been a significant increase in credit risk.

Lifetime PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Corporation's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

Quantitative staging is as follows;

1. Stage 1: 0 – 30 days in arrears
2. Stage 2: 31 – 90 days in arrears plus facilities over 90 days in arrears but with payments in the last 3 months.
3. Stage 3: over 90 days in arrears with no repayments in the last three months.

An overdraft is considered in arrears if:

- It is over the limit (the drawn down amount exceeds the credit limit)
- The facility period has expired while an amount is still outstanding.

In either case, arrears days are calculated from the date the event occurred.

As a backstop, the Corporation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

ii) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

The Corporation uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, except for [disclosure of the type of exposures], for which a backstop of 15 days past due is applied

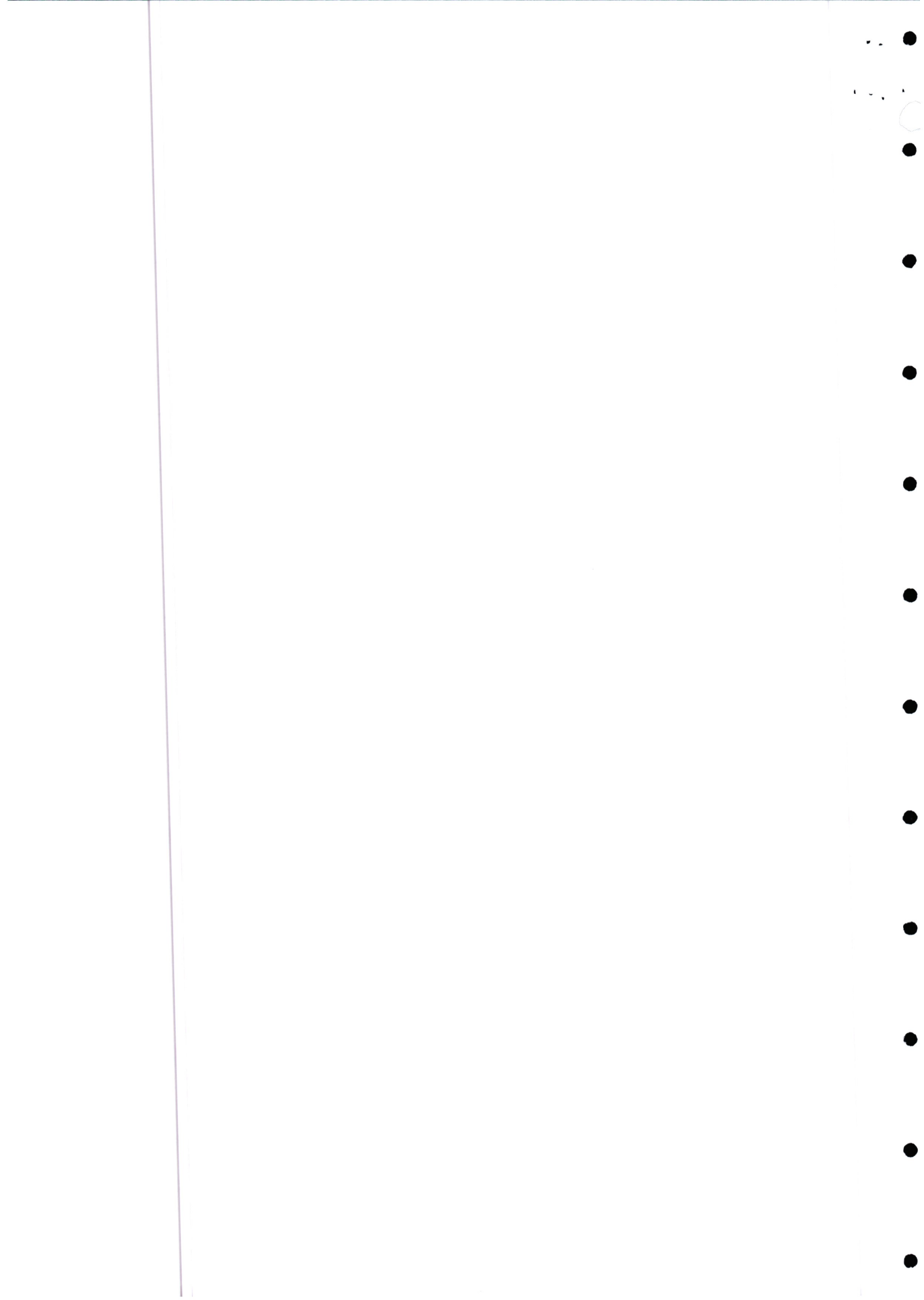
Credit risk grades

The Corporation allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
– Information obtained during monthly /quarterly review reports to Management and the Board e.g. loan status reports and aging analysis audited financial statements. Examples of areas of particular focus are: loan amount advanced, outstanding, principal/interest, ratio of outstanding amount to total loan balance, security valuation, gross profit margins, financial leverage ratios, debt service coverage. – Data from credit reference agencies, press articles after verification. – Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities carried out by Research Unit and portfolio management.	– Staff status reports showing loan amount advanced, outstanding, principal/interest, ratio of outstanding amount to total loan balance, security valuation	– Payment record – this includes overdue status as well as a range of variables about payment ratios – Utilization of the granted limit for guarantees in favour of third parties. – Requests for and granting of forbearance e.g through loan restructuring.
– The table below provides an indicative mapping of how the Corporation's internal credit risk grades relate to PD and to external credit ratings of Moody's. – The customer loans portfolio of the Corporation comprises ordinary loans, business loans, current account loans, credit cards and Corporation guarantees.		
Grading	12-month weighted-average PD	External rating
Grades 1: Normal	28%	AAA to B
Grades 2: Watch	26%	B- to C
Grades 3–5: Substandard and Doubtful	100%	Default



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

i) Collateral held and other credit enhancements (continued)

	30 June 2019 Shs' 000	30 June 2018 Shs' 000
LTV ratio		
Less than 50%	814,868	1,193,259
51–70%	768,029	257,391
71–90%	84,211	296,339
91–100%	114,184	55,978
More than 100%	33,335	6,999
Total	1,814,627	1,809,966

Loans and advances to corporate customers

The general creditworthiness of customers tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Corporation generally requests that corporate borrowers provide it. The Corporation may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Corporation's focus on corporate customers' creditworthiness, the Corporation does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Corporation obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Other types of collateral and credit enhancements

The Corporation does not hold any other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Corporation has not obtained any assets by taking possession of collateral.

ii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

A) CREDIT RISK (CONTINUED)

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Loans and advances to customers at amortised cost – gross carrying amount					
Current	808,754	-	-	808,754	1,130,694
Overdue < 30 days	-	404,604	-	404,604	285,928
Overdue > 30 days	-	-	601,269	601,269	393,344
Total	808,754	404,604	493,706	1,814,627	1,809,966

Cash and cash equivalents

The Corporation held cash and cash equivalents of Shs. 559 million at 30 June 2019 (2018: Shs 1,458 million). The cash and cash equivalents are held with financial institution counterparties that are rated at least C to Aaa, based on Moody's ratings.

i) Collateral held and other credit enhancements

The Corporation holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		
	30 June 2019 Shs' 000	30 June 2018 Shs' 000	Principal type of collateral held
Loans and advances to customers	1,734,196	1,708,954	Land
Loans and advances to customers	37,946	58,739	Debentures
Loans and advances to customers	25,299	23,299	Property and equipment
Loans and advances to customers	17,186	18,974	Others
	1,814,627	1,809,966	

The following table stratify credit exposures from loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral.

The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

- Credit risk
- Liquidity risk
- Market risks
- Capital risk management

A CREDIT RISK

Credit risk refers to the current or prospective risk to earnings and capital arising from an obligator's failure to meet the terms of any contract with the Corporation or if an obligator otherwise fails to perform as agreed. It arises principally from lending, leasing, trade finance and treasury activities. The Corporation's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for doubtful advances, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

Credit quality analysis

An analysis of the Corporation's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3.

Year ended 30 June 2019

Loans and advances to customers at amortised cost	Stage 1 12-month ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total Shs	Year ended 2018 Total Shs
Grade 1: Normal	822,320	-	-	822,320	1,140,917
Grade 2: Watch	-	464,398	-	464,398	285,928
Grade 3: Substandard	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-
Grade 5: Loss	-	-	863,929	863,929	393,344
Total gross carrying amount	822,320	464,398	863,929	2,150,647	1,820,189
Loss allowance	(13,566)	(59,794)	(262,660)	(336,020)	(10,223)
Carrying amount	808,754	404,604	601,269	1,814,627	1,809,966

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Models and assumptions used

The Corporation uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Key sources of estimation uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:

When measuring ECL the Corporation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Valuation of unquoted investments

For equity instruments for which no active market exists, the Corporation uses the price of a recent investment or the earnings multiple to estimate the fair value of these investments. Management uses estimates based historical data relating to earnings of the investee Corporation and other market based multiples in arriving at the fair value. The primary assumption in employing the earnings multiple method is that the market has assigned an appropriate value to the benchmark Corporation. The methodology and assumptions used for arriving at the market based multiples are reviewed and compared with other methodologies to ensure there are no material variances.

Useful lives of property, plant and equipment

Critical estimates are made by directors in determining the useful lives of and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Valuation of investment properties

Estimates are made in determining valuation of investment properties. The corporation management uses experts in determination of the values to adopt.

4 FINANCIAL RISK MANAGEMENT

This note presents information about the Corporation's exposure to financial risks and the Corporation's management of capital.

The Corporation has exposure to the following risks from its use of financial instruments:

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

Comparatives

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Corporation determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Corporation monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Corporation's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Corporation takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Corporation monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Current and deferred income tax

Income tax expense represents the sum of tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be generated against which the unused tax credit can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

Employee benefits:

Retirement benefit obligations

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by independent fund managers and is funded by contributions from both the employer and the employees.

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time.

The Corporation contributions in respect of retirement benefit schemes are charged to profit or loss in the year to which they relate.

Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

Related parties

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

Grants

Grants are recognized initially as deferred income at cost when there is reasonable assurance that they will be received and the Corporation will comply with the conditions.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(v) Measurement and recognition of expected credit losses (Continued)

Derecognition of financial assets

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Corporation has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

After initial recognition, the Corporation measures all financial liabilities including customer deposits, cash collaterals other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Derecognition of financial liabilities

Financial liabilities are derecognised when and only when the Corporation obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowings

Borrowings are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Dividends payable

Dividends payable to the government of Kenya in the period in which they are declared and charged to the profit and loss. Proposed dividends are not accrued for until ratified in an annual general meeting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legal enforceable right to set off the recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(ii) Definition of default (Continued)

- when there is a breach of financial covenants by the borrower; or
- information developed internally or obtained from external sources indicates that the borrower is unlikely to pay its lenders and or creditors, including the Corporation, in full (without taking into account any collateral held by the Corporation).

Irrespective of the above analysis, the Corporation considers that default has occurred when a financial asset is more than 90 days past due unless the Corporation has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event (see (ii) above);
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- e) the disappearance of an active market for that financial asset because of financial difficulties.

(iii) Write-off policy

The Corporation writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings, or, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Corporation's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Corporation's understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Corporation in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at the original effective interest rate. If the Corporation has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Corporation measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Corporation compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Corporation considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Corporation's borrowers operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Corporation's core operations increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant decrease in the borrower's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Corporation presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Corporation has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Corporation assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term,
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Corporation considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

(ii) Definition of default

The Corporation considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

The Corporation assesses the business model criteria at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election on initial recognition for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

Accounting for loans and advances held at amortised cost under IFRS 9 effective from 1 July 2018

Loans and advances to customers and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate. Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

In determining whether the business model is a 'hold to collect' model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean the Corporation is required to hold the financial assets until maturity. When determining if the business model objective is to collect contractual cash flows the Corporation will consider past sales and expectations about future sales.

Accounting for loans and advances and deposits held at amortised cost under IAS 39 for 2017 and 2016

Loans and advances to customers and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

All categories of property and equipment are initially recorded at cost. Property and equipment are subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by internal independent qualified valuers every three years for land and buildings and five years for other assets.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

The annual rates in use are:	
Motor vehicle and motor cycles	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

Leasehold land and buildings are amortised and depreciated respectively at the lower of useful life of 55 or over the remaining period of the lease term. Land is under leasehold for 99 years from 1 May 1970.

Gains and losses on disposal of property, motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

The assets residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

Assets acquired during the year are not subject to depreciation in the year of purchase but full depreciation is charged on these assets in the year of disposal.

Computer software development costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives not exceeding a period of 3 years.

Financial instruments

The Corporation applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

The Corporation recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Classification and measurement

Financial assets

Financial assets are classified on the basis of two criteria:

- (i) the business model within which financial assets are managed, and
- (ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, investment properties, marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Corporation's accounting policies.

Functional and presentation currency

The financial statements are presented in Kenya shillings (Shs), which is the Corporation's functional currency.

Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

Interest Income- is the interest earned on the Corporation's customers loans and advances, and is recognised in the income statement as it accrues using the effective interest method.

Finance income -comprises interest receivable from bank deposits and investment in securities, and is recognised in income statement on a time proportion basis using the effective interest rate method.

Dividend income- is recognised in the income statement in the year in which the right to receive the payment is established.

Rental income -is recognised in the income statement as it accrues using the effective lease agreements.

Income from sale of inventory – comprises the fair value of the consideration received for the sale of inventory property in the ordinary course of the Corporation's activities.

Other income is recognised as it accrues.

Consolidation

The Corporation has more than 50% shareholding in some of its investee companies. However, consolidated financial statements of the Corporation and its subsidiaries are not prepared as the Corporation does not have power, directly or indirectly, to govern the financial and operating activities of these entities so as to obtain benefits from the activities. Control over these entities lies with the Government of Kenya through the National Treasury.

Investment property

Investment property is shown at fair value, based on annual valuations by internal professional valuers. Increases in the carrying amount arising on revaluation of investment property are dealt with in profit or loss.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the completed units' method. The inventory consists of completed developed units or developments earmarked for sale that have been transferred from investment property. The valuation at the date of transfer is deemed as the cost of the inventory and subsequently assessed for any net realisable value losses.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2019

Annual improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.
- All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The Directors of the Corporation do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The Directors of the Corporation do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements.

c) Early adoption of standards

The Corporation did not early-adopt any new or amended standards in the year 2019.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2019

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRS Standards 2015–2017	1 January 2019
Amendments to IAS 19 Employee Benefits	1 January 2019
IFRS 10 Consolidated Financial Statements and IAS 28	Effective for annual periods beginning on or after a date to be determined

IFRS 16 Leases

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

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

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Directors of the Corporation are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

The Directors of the Corporation do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Impact of new standards effective for the year ended 30 June 2019 (continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers (Continued)

The Corporation's accounting policies for its revenue streams are disclosed in detail under the Basis of preparation' section for the Corporation's accounting policies for its revenue streams. Apart from providing more extensive disclosures for some of the Corporation's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Corporation.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i) the original liability is derecognised;
 - ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments to the standard has had no impact on the Corporation's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:

- Transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.
- The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:
- 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 amendments to the standard has had no impact on the Corporation's financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Impact of new standards effective for the year ended 30 June 2019 (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The Corporation's accounting policies on the classification of financial instruments under IFRS 9 are set out above. The application of these policies resulted in the reclassifications set out in the table above.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 July 2018.

	IAS 39 carrying amount 30 June 2018 Shs' 000	Remeasurement Shs' 000	IFRS 9 carrying amount 1 July 2018 Shs' 000
Financial assets			
Amortised cost			
Loans and advances to customers:			
Opening balance	1,809,966	-	-
Remeasurement	-	(116,944)	-
Closing balance	-	-	1,693,022
Trade and other receivables:			
Opening balance	241,752	-	-
Remeasurement	-	4,834	-
Closing balance	-	-	246,586
Total amortised cost	2,051,718	(112,110)	1,939,608

The following table summarizes the impact of transition to IFRS 9 on the opening balance of the liability credit reserve, and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 July 2018 Shs' 000
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	7,810,409
Recognition of expected credit losses under IFRS 9	(112,110)
Opening balance under IFRS 9 (1 July 2018)	7,698,299

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Corporation has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services has been satisfied.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Impact of new standards effective for the year ended 30 June 2019 (continued)

Financial assets and financial liabilities (Continued)

Non-recourse loans

In some cases, loans made by the Corporation that are secured by collateral of the borrower limit the Corporation's claim to cash flows of the underlying collateral (non-recourse loans). The Corporation applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Corporation typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Corporation's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Corporation will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The combined application of the business model and SPPI tests on adoption of IFRS 9 resulted in the reclassification of the following financial assets and liabilities.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Corporation's financial assets and financial liabilities as at 1 July 2018.

	Note	Classification Under IAS 39	Classification Under IFRS 9	Original Carrying Amount Shs'000	New Carrying Amount Shs'000
FINANCIAL ASSETS					
Loans and advances		Loans & Receivables	Amortised cost	1,809,966	1,693,022
Government bonds		Held to maturity	Amortised cost	12,555	12,555
Quoted investments		Available for sale	FVTOCI	5,843,621	5,843,621
Unquoted investments		Available for sale	FVTOCI	11,113,158	11,113,158
Trade and other receivables		Amortised cost	Amortised cost	241,752	246,586
Due from related parties		Amortised cost	Amortised cost	277	277
Bank balances		Amortised cost	Amortised cost	40,623	40,623
Short term deposits		Amortised cost	Amortised cost	1,418,000	1,418,000
Total				20,479,952	20,367,842



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Impact of new standards effective for the year ended 30 June 2019 (continued)

Financial assets and financial liabilities (Continued)

Classification (Continued)

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Corporation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Corporation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Corporation considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Corporation's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Impact of new standards effective for the year ended 30 June 2019 (continued)

Classification of financial assets and financial liabilities

However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Corporation applies the impairment requirements of IFRS 9.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have not been applied retrospectively.

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for the year ended 31 June 2019 reflects the adjusted requirements of IFRS 9.

Financial assets and financial liabilities

Recognition and Initial Measurement

The Corporation initially recognises loans and advances issued and subordinated liabilities on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets – Policy applicable from 1 July 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: (i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI).

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Corporation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 REPORTING ENTITY

The Industrial and Commercial Development Corporation ("the Corporation") is established as a Corporation under the Act of Parliament and the Industrial and Commercial Development Corporation Act, and is domiciled in Kenya. The Corporation is involved in facilitating the industrial and economic development of Kenya by the initiation, assistance or expansion or by aiding the initiation, assistance or expansion of industrial, commercial or other undertaking or enterprises in Kenya or elsewhere. The corporation is to act principally as an auxiliary finance organization and afford financial assistance by way of guarantee, loan or investment. The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
P O Box 45519 - 00100
Nairobi

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, 2012 and the ICDC Act, 1954. The accounting policies adopted have been consistently applied to all the years presented.

a) Impact of new standards effective for the year ended 30 June 2019

Impact of initial application of IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The Corporation did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves in the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The key changes to the Corporation's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 Shs'000	2018 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	30(a)	290,449	293,954
Income tax paid	12(c)	(84,355)	(40,233)
Net cash generated from operating activities		206,094	253,721
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets	13	(24,566)	(6,400)
Purchase of property and equipment	14	(7,950)	(25,433)
Development of investment property	15	(1,178,898)	-
Development of inventory	16	-	(36,104)
Proceeds on Maturity treasury bonds	17	-	4,455
Purchase of unquoted investments	18	-	(21,576)
Proceeds on disposal of unquoted investments		-	7,224
Proceeds on disposal of quoted investments	19	112,025	-
Proceeds on disposal of property and equipment		-	1,339
Net cash used in investment activities		(1,099,389)	(76,495)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan repayment	25	-	(20,000)
Dividend payment	29	(5,880)	(22,255)
Net cash used in financing activities		(5,880)	(42,255)
Net (decrease)/increase in cash and cash equivalents		(899,175)	134,971
Movement in cash and cash equivalents			
At start of year	23	1,458,624	1,323,653
(Decrease)/increase in cash and cash equivalents		(899,175)	134,971
At end of year	23	559,449	1,458,624

The notes on pages 25 to 75 are an integral part of these financial statements.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Revaluation reserve Shs'000	Fair value adjustment reserve Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2018				
<i>At 1 July 2018</i>	53,054	13,757,717	7,638,919	21,449,690
Profit for the year	-	-	171,490	171,490
Other comprehensive income for the year	8,894	853,851	-	862,745
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2018	<u>61,948</u>	<u>14,611,568</u>	<u>7,810,409</u>	<u>22,483,925</u>
	=====	=====	=====	=====
Year ended 30 June 2019				
<i>At 1 July 2018 as previously reported</i>	61,948	14,611,568	7,810,409	22,483,925
IFRS 9 day 1 adjustment	-	-	(112,110)	(112,110)
Deferred tax on day 1 adjustment	-	-	33,633	33,633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>At 1 July 2018 – as restated</i>	61,948	14,611,568	7,731,932	22,405,448
Profit for the year	-	-	637,999	637,999
Other comprehensive income for the year	14,156	(4,556,989)	-	(4,542,833)
Derecognized revaluation loss on disposed quoted investments	-	(81,020)	-	(81,020)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2019	<u>76,104</u>	<u>9,973,559</u>	<u>8,369,931</u>	<u>18,419,594</u>
	=====	=====	=====	=====

The notes on pages 25 to 75 are an integral part of these financial statements

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

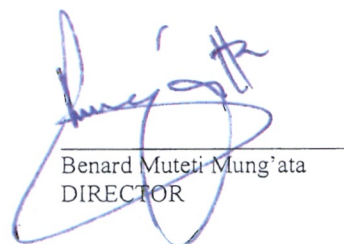
STATEMENT OF FINANCIAL POSITION FOR YEAR ENDED 30 JUNE 2019

	Notes	2019 Shs'000	2018 Shs'000
Assets			
Intangible assets	13	28,954	8,649
Property and equipment	14	122,517	114,704
Investment property	15	3,395,000	2,112,141
Inventory – units for sale	16	779,805	970,322
Government securities	17	12,555	12,555
Unquoted investments	18	7,294,608	11,113,158
Quoted investments	19	4,837,104	5,843,621
Trade and other receivables	20	389,753	241,752
Loans and advances	21(a)	1,814,627	1,809,966
Related companies current balances		155	277
Cash and cash equivalents	23	559,449	1,458,624
Total assets		19,234,527	23,685,769
		=====	=====
Reserves			
Revaluation reserve	24	76,104	61,948
Fair value adjustment reserve	24	9,973,559	14,611,568
Retained earnings	24	8,369,931	7,810,409
Total reserves		18,419,594	22,483,925
		=====	=====
Liabilities			
Loans and grants	25	391,850	842,974
Deferred tax liability	26	31,188	-
Trade and other payables	27	338,764	115,036
Deferred revenue	28	18,524	195,025
Dividend payable	29	33,258	38,730
Taxation payable	12(c)	1,349	10,079
Total liabilities		814,933	1,201,844
		=====	=====
Total reserves and liabilities		19,234,527	23,685,769
		=====	=====

The notes on pages 25 to 75 are an integral part of these financial statements.

The financial statements on pages 21 to 75 were approved and authorised for issue by the board of directors on 8th April 2020 and were signed on its behalf by:


 William Haggai
 DIRECTOR


 Benard Muteti Mung'ata
 DIRECTOR

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

		2019	2018
	Notes	Shs'000	Shs'000
Revenue			
Operating income	6	1,107,032	969,417
Sale of property	7	197,050	-
Other income	8	718,210	94,626
Total revenue		2,022,292	1,064,043
Cost of sales	9	(179,503)	-
Operating expenses			
Administration costs	10(a)	(531,868)	(394,187)
Amortisation of intangible assets	13	(4,261)	(2,646)
Depreciation of property and equipment	14	(11,185)	(12,330)
Provision for losses	22	(497,567)	(423,682)
Impairment of property	16	(11,015)	-
Total operating expenses		(1,055,896)	(832,845)
Operating profit		786,893	231,198
Finance cost	11	(8,448)	(8,448)
Profit before taxation		778,445	222,750
Taxation charge	12(a)	(140,446)	(51,260)
Profit for the year		637,999	171,490
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Fair value (loss)/gain on unquoted investments	18	(3,707,550)	1,561,276
Fair value loss on quoted investments	19	(849,439)	(707,425)
Net gain on revaluation of buildings		14,156	8,894
Total other comprehensive (loss)/ income for the year		(4,542,833)	862,745
Total comprehensive (loss)/income for the year		<u><u>(3,904,834)</u></u>	<u><u>1,034,235</u></u>

The notes on pages 25 to 75 are an integral part of these financial statements

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

07 October, 2020

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Long Overdue Rental Receipts

The statement of financial position as at 30 June, 2019 reflects outstanding debts totalling Kshs.226,331,000 owed by tenants at the Corporation's Head Office at Uchumi House in Nairobi. In the year under review, the Corporation made a provision for bad debts totalling Kshs.58,573,000 equivalent to 24% of the sum owed by the tenants. The provision has put at risk public resources of equivalent amount. Management has not established effective controls to ensure timely and effective collection of rental income.

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

Responsibilities of Management and Board of Directors

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

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

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

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

In view of the missing information, I am not able to confirm the nature of Government loans and grants liabilities totalling Kshs.459,572,000 that the Corporation wrote back and recognized as income in the year under review. In addition, I have not confirmed that the advice of the Cabinet on treatment of the loans and grants was followed. Therefore, I am not able to confirm the accuracy, validity and completeness of the grants and loans balance totalling Kshs.391,850,000 reflected in the Corporation's statement of financial position as at 30 June, 2019.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified

In the absence of records on the old grants and loans, it is not possible to confirm the validity, accuracy and completeness of the loans and advances balance totalling Kshs.1,814,627,000 reflected in the statement of financial position as at 30 June, 2019.

Further, the high ratio of non-performing portfolio points to failure by the Corporation to collect loans lent to its customers. As a result, the Corporation's capacity to achieve its mandate and purpose has been constrained. Management have explained that a large proportion of the non-performing loans arose from Government policy that required the Corporation not to follow strict commercial lending criteria. Management further say they have since put in place new control measures to stem the high rate of default experienced in the past.

2. Unsupported Government Loans and Grants Balance

The statement of financial position as at 30 June, 2019 reflects loans and grants totalling Kshs.391,850,000. The balance includes grants and loans totalling Kshs.381,147,000(2018:Kshs.832,791,000) and accrued interest expenses totalling Kshs.7,928,000 (2018:Kshs.7,928,000) owed to the Government of Kenya (GoK). As reported in previous years, the GoK grants and loans have been outstanding for many years. However, the agreements between the GoK and the Corporation on the loans and grants have not been made available for audit review.

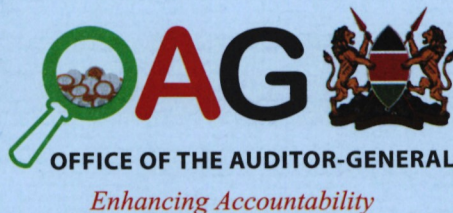
In the circumstance, it is not possible to verify the terms and division of the loans and grants totaling Kshs.391,850,000 and accrued interest expense totalling Kshs.7,928,000 reported in the statement of financial position as at 30 June, 2019. Further, I am unable to confirm the accuracy, validity and completeness of the said grant and loan balances as well as the related interest expenses.

In addition, Note 25 to the financial statements shows that during the year under review, the Corporation wrote back loans totalling Kshs.459,572,000 owed to the GoK and credited these to 'Other Income' in the statement of profit or loss and other comprehensive income for the year, as disclosed in Note 8 to the financial statements. The write-back followed authority granted to the Corporation by the Cabinet to reconfigure old loans, grants and accrued interest expenses owed to the GoK. The Cabinet made its decision after having considered a memorandum on the matter submitted by the Cabinet Secretary to the National Treasury in October, 2017. The memorandum had requested the Cabinet to restructure loans totalling Kshs.391,848,560, write-off others totalling Kshs.863,087,559, convert into grants those totalling Kshs.268,184,200 and waive accrued interest totalling Kshs.300,928,682, all totalling Kshs.1,824,049,001. The authority granted by the Cabinet called on Management to review the debtors list to include all qualifying loans and reject invalid ones, if any.

However, the financial statements have not disclosed how the sum of Kshs.459,572,000 written back and credited to income was arrived at in light of the authority granted by the Cabinet. Further, as at the time of signing this report, the process of reconfiguring the loans and grants had not been completed as the subsidiary agreement between the National Treasury and the Corporation had not been finalized.

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Industrial and Commercial Development Corporation (ICDC) set out on pages 21 to 75, which comprise the statement of financial position as at 30 June, 2019, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Development Corporation as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Industrial and Commercial Development Corporation Act, Cap 445 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Value of Lending Portfolio

The statement of financial position as at 30 June, 2019 reflects loans and advances totalling Kshs.1,814,627,000 being outstanding loans advanced by the Corporation to borrowers. Other records of the Corporation show that on the said date, approximately Kshs.31,000,000,000 (thirty-one billion) or 94 % of the Corporation's total loans portfolio estimated at Kshs.33,000,000,000 (thirty-three billion) was considered by Management as non-recoverable. Securities related to some of the old non-performing loans were reported to be missing, impaired or irredeemable being borrowers' ancestral lands. The Board of Directors has since approved a full provision for the losses totalling Kshs.31,000,000,000 against the Corporation's reserves as required in International Financial Reporting Standard No.9.



INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (CONTINUED)

Report on the Audit of financial statements (Continued)

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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 in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

Report on the Audit of financial statements

Opinion

We have audited the accompanying financial statements of Industrial and Commercial Development Corporation (the "Corporation") set out on pages 21 to 75, which comprise the statement of financial position at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Industrial and Commercial Development Act (Cap. 445 of the Laws of Kenya).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information, which comprises of the chairman's statement, directors' report and the statement of directors' responsibilities. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Industrial and Commercial Development Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial and Commercial Development Corporation Act and the Public Audit Act 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the corporation as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the corporation maintains proper accounting records that are sufficient to show and explain the transactions of the corporation and disclose, with reasonable accuracy, the financial position of the corporation. The directors are also responsible for safeguarding the assets of the corporation, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial period ended on June 30, 2019. This responsibility includes:

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

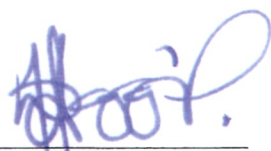
The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Industrial and Commercial Development Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2019, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Having made an assessment of the corporation's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the corporation's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

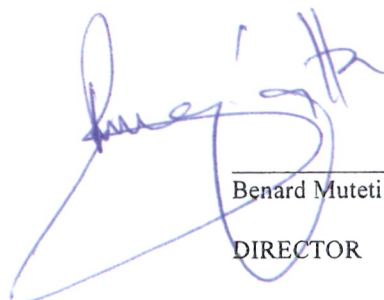
Approval of the financial statements

The Corporation's financial statements were approved by the Board on 8th April 2020 and signed on its behalf by:



William Haggai

DIRECTOR



Benard Muteti Mung'ata

DIRECTOR

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

REPORT OF DIRECTORS

The directors present their annual report together with the audited financial statements of Industrial and Commercial Development Corporation (the Corporation) for the year ended 30 June 2019 which show the state of the Corporation's financial affairs.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation are investing in venture capital, lending for commercial and industrial purposes and offering consultancy and related management advisory services.

KEY PERFORMANCE STATISTICS

The table below highlights some of the key performance indicators over a period of 2 years:

Performance ratios	2019	2018
Operating profit %	71%	24%
	=====	=====
Profit before income tax (Shs '000)	778,445	222,750
	=====	=====
Return on assets	4%	1%
	=====	=====
Net assets (Shs '000)	18,419,594	22,483,925
	=====	=====

DIRECTORS

The directors who held office during the year up to the date of signature are listed on page 2.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

- (a) There was, as far as each director is aware, no relevant audit information of which the Corporation's auditor is unaware; and
- (b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Corporation's auditor is aware of that information.

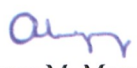
TERMS OF APPOINTMENT OF AUDITORS

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Section 23 of the Public Audit Act, 2016, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Deloitte and Touché was nominated by the Auditor General to carry out the audit of the Industrial and Commercial Development Corporation for the year ended 30 June 2019.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

BY ORDER OF THE BOARD


Grace M. Magunga
COMPANY SECRETARY

Nairobi
8th April 2020

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Committees of the Board (continued)

c) **Finance and Investment Committee**

The Finance and Investment Committee has six (6) members including the Executive Director. The objective of the Committee is to oversee the investment of Corporation's funds, formulate investment policies, strategies and assist the Board in matters pertaining to finance and investments, review interim financial reports and other functions as may be delegated by the Board. The Committee exercises oversight over implementation of the investment strategy.

Board Service Charter and Work Plan

The Corporation has developed and implemented a Board Service Charter which details out the various responsibilities of the members of the Board, their approach to business and ethical behaviour.

Included in the Charter are methodologies of receiving and deliberating on information relating to Board business, decision making processes and directors independence and objectivity to board business. The operations of the Board are guided by a work plan that is prepared, approved and adopted by the Board at the beginning of each financial year.

Board Evaluation

The Corporation's Board performance during the year under review was an average score of 78.24%.

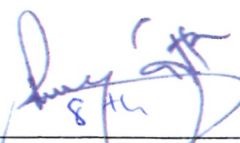
The Board has put in place a performance improvement program to ensure continuous improvement in performance.
Acknowledgement

Looking ahead

The Corporation is working to attain business growth and new investments in 2020 under the new business model. The Corporation has put in place investment policies to guide its business activities while taking into consideration environmental concerns.

On behalf of the Board I thank the Management and the employees for the invaluable efforts in ensuring that the Corporation remains a key pillar in the development finance sector. My sincere gratitude to our parent Ministry of Industry, Trade and Enterprise Development, The National Treasury and Planning and other Government agencies, Customers and other Eco partners for the unwavering support and contribution made in the year 2018/2019.

I would also like to express my gratitude to my fellow Board members providing strategic direction and oversight which are critical for the continued success of the Corporation.


8th April 2020
Benard Muteti Mung'ata
Chairman

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

HIV/AIDS Awareness

The Corporation continued to implement its programs aimed at reducing the prevalence of HIV and AIDS infections. During the year two hundred and thirty four (234) stakeholders were sensitized through our various outreach programs.

Corporate Governance

ICDC has adopted high standards and applies strict rules of conduct based on the best corporate practices. As part of this commitment, the Board of Directors adheres to good corporate governance by embracing the following principles:

1. Observing high standards of ethical and moral behaviour and encourage ICDC employees to maintain personal integrity and honesty in their dealings;
2. Acting in the best interests of the organization and in compliance with the Constitution, the ICDC Act and all applicable laws;
3. Remunerating and promoting industrial and economic growth in Kenya fairly and responsibly;
4. Recognizing the legitimate interests of all stakeholders through participation in policy making, resource allocation and access to public funds; and
5. Ensuring that the organization acts as a good corporate citizen.

Board members act in the best interest of the organization and uphold their fiduciary responsibilities and duty of care. The culture of good corporate governance permeates all levels of the Corporation from the Board of Directors, Management to all members of staff. We endeavor to act honestly and in good faith so as to create a culture built on principles of integrity, accountability and transparency. Our operations are driven by the desire to maximize shareholder value while safeguarding the rights and interests of all stakeholders. This has led to the continued success of the Corporation.

Board of Directors

The Board of Directors is comprised of appointed members who jointly oversee the activities of the organization. There are nine members including the Chairman and Executive Director, seven of whom are independent while two represent the Ministries of Industry, Trade and Co-operatives and The National Treasury and Planning. The Board provides strategic direction, exercise control and remain accountable through effective leadership, enterprise, integrity and good judgment.

The Board oversees risk management, is responsible for investment decisions and ensures a high level of compliance with relevant laws and regulations. To achieve this, the Board has adopted and continues to adhere to Mwongozo, Code of Governance for State Corporations to deliver value to Kenyans in a transparent and accountable manner.

Committees of the Board

In line with good corporate governance, the Board has constituted the following three (3) standing committees with specific terms of reference to assist in discharging its duties.

a) **Board Risk and Audit Committee**

The Board Risk and Audit Committee consists of five (5) non-executive directors and reviews the Corporation's internal and external audit reports, approves the annual financial statements, considers significant financial reporting issues and makes recommendations to the Board concerning their approval and content. The Committee ensures that the Corporation has effective systems, controls and processes of accountability and risk management. It is also responsible for monitoring performance and independence of external auditors.

b) **Human Resource, Governance and General Purposes Committee.**

The Human Resource, Governance and General Purpose Committee consists of five (5) Directors including the Executive Director. It addresses issues pertaining to staff welfare, governance and any other issues as may be delegated by the Board from time to time. Matters considered by this Committee include employee remuneration, recruitment of senior staff, skills development, motivation and Corporate Governance. It ensures that the correct incentives and reward mechanisms are in place in the Corporation whilst maintaining the principles of equity and appropriateness of compensation. The Committee reviews the human resources practices and policies and recommends changes geared towards attracting, retaining and motivating staff so as to sustain operations in an increasingly competitive business environment.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Investing for Impact (continued)

(a) Investments (continued)

- ii) We invested Shs 139 million in a flour milling and animal feeds plant in Machakos County towards putting up buildings, purchasing machinery and equipment and provision of working capital resulting in the creation 696 direct jobs.
- iii) At Mtwapa in Kilifi County the Corporation invested Shs 31.5 million in a Coconut processing plant. The money went to purchasing machinery and working capital to operationalize the investment. This EPZ based investment which is in line with the Government agenda has so far been able to contribute to the Kenyan economy by producing 80 direct jobs.
- iv) In the process of furthering the Government Agenda we invested Shs 30 million in a rapidly growing pharmaceutical manufacturing firm in the Kenyan Pharmaceutical Industry offering a wide range of quality and affordable generic medicines and disinfectants. The investment saw 30 people receive direct employment.
- v) The Corporation has also ventured into the hotel industry in Machakos town injecting Shs 23 million in a hotel and as a result creating 144 direct jobs.
- vi) In Kwale County the Corporation in conjunction with one of its investee companies saw an opportunity to invest in a fruit puree processing plant and put in Shs 99 million, so far creating 150 jobs in support of the Government Agenda.
- vii) The Corporation extended a loan of Shs 31 million to a fish processing plant located in Kyangombe, Nairobi County supporting the Government's Agenda on establishment of fish processing. This investment has so far created 96 direct jobs along its value chain.
- viii) The Corporation advanced Shs 25 million to a Steel Company that manufactures Iron Sheets, Nails and other steel products to boost its working capital leading to the creation of 92 direct jobs.
- ix) A beverage manufacturing Company in Laikipia County received a Shs 77 million boost to fund its expansion. Thus far this investment has generated 122 direct jobs.
- x) The Corporation provided Shs 10 million to finance purchase of machinery for a Company located in Thika which converts plastic waste into oil. It is hoped that this company will contribute to a cleaner environment while meeting the Governments agenda.

b) County engagement strategy

In line with the Government's Big Four Agenda, the Corporation has identified development of Industrial parks as a critical enabler to sustain industrial developments. To this end, ICDC is entered into a partnership with Nyandarua County to set up a potatoes and vegetable processing plant. The Corporation is also collaborating with Bungoma and Machakos counties to develop industrial parks.

The marketing team participates in various business forums across the country and reached out to twenty counties to intensify awareness of the Corporation's products and identify potential projects for consideration by ICDC.

Human capital

The Corporation recognizes people as a critical asset and key part for the success of its strategy. Key focus has been to ensure employees are satisfied, highly motivated and engaged.

As a learning organization and to ensure it sustains emotionally intelligent knowledgeable employees, the Corporation implemented various competency based learning and development programs with a focus to Project Finance, Investments Appraisal, Risk Analysis, Coaching, Leadership and Management Development, all geared towards building specific competencies in employees that will ultimately give the Corporation a competitive edge.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Future Outlook

The future of the global economy remains uncertain in light of the Covid-19 pandemic that is currently sweeping across various countries. In a bid to contain the pandemic, countries are implementing measures that have severely disrupted the business environment; markets, sources of raw materials, movement of labour among others have been severely disrupted. In view of these realities, global output is projected to shrink by 3% in 2020. Advanced economies are expected to shrink by 6.1% compared to Emerging Markets and Developing Economies which are projected to shrink by 1%.

On the domestic front, the local economy has experienced pressure from the Covid-19 pandemic as well as locust invasion that will likely impact on Agricultural output. Consequently, the economy is temporarily projected to shrink by between 1% - 2% in 2020. This is dependent on how long the pandemic lasts, how severe the measures put in place to contain the pandemic hurt the business environment and the robustness of economic policy tools that will be deployed to aid recovery in a post pandemic environment. The Corporation is closely monitoring the existing portfolio, mapping out the severity of the situation for its investee companies with a view to re-appraising the projects when the situation normalises. This will inform decision making on the range of measures and interventions which are necessary to minimize the impact of the pandemic on the Corporation's financial performance.

Financial Performance

During the fiscal year 2018-2019, the Corporation received and implemented a cabinet directive on restructuring the Corporation's balance sheet following over 10 years of reconciliation and technical work done by a team from ICDC and The National Treasury with the main objective of determining the quantum of funds that were allocated to the Corporation during the 1980s without proper records and formal agreements specifying their nature and the terms thereto. The lack of adequate records to confirm the accuracy of these balances formed the basis of a qualified audit opinion of the Corporation's annual financial statements over several years.

According to the audited financial statements for the year ended 30th June 2018, the Corporation reported a total of Shs. 842.9m as loans and grants on the balance sheet which following the Cabinet approval, was restructured into three components; a rescheduled principal loan of Shs. 391.8m, GoK Grants of Shs. 268.2m and waiver of accrued interest of Shs. 300.9m. The resulting accounting adjustments in line with financial reporting standards led to a one-off gain of Shs. 459.6m out of a realized profit for the year of Shs. 786.4m.

Capital investments approved and amounted to Shs. 1.5billion comprising loans disbursements worth Shs. 471m and Shs. 998m for acquisition of Finance House from Development Bank of Kenya which is classified Investment Property.

The Corporation closed the year with a total asset position of Shs.19.2 billion down from Shs. 23.7billion during the prior year period due to loss on revaluation of equity investments.

Investing for Impact

The Corporation's business model of playing the role of lead investor which is driven by the need to underwrite high risks associated with start-up projects and to facilitate the dispersion of industries across the country. This is to be achieved by developing projects in consultation and partnership private sector investors, engagement with country governments and foreign investors.

The following achievements were made during the year under review:

(a) Investments

In partnership with both the public and private sectors and through county engagement strategies, the Corporation undertook various investment projects within the identified sectors that have potential to generate socio-economic and environmental impact by providing financial solutions to facilitate the creation of industries that have the potential to create wealth and job opportunities for Kenyans. The following investments were made during the year under review:-

- i) Invested Shs 40 million in a Nairobi based ICT Company to enable it to roll out its payment software offering end-to-end solution transaction, expense management and business management solutions to MSME's, individuals and corporate entities. This investment resulted in the creation of 25 direct jobs.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT



I am delighted to present to you the Corporation's financial performance and results of operations during the year ended June 30th 2019. The overall market environment and business conditions have a significant influence on ICDC's business performance. In this regard, the Board of Directors fully appreciates and seeks to develop strategies to respond effectively to the prevailing market forces in the business environment.

During the year under review, the Corporation developed and embarked on the implementation of a five year Strategic Plan covering the period 2018 to 2023 which is aligned to support the Government's Big 4 Agenda. Under this development blueprint, The Government of Kenya has identified four pillars on which to accelerate the growth of the country's economy with manufacturing, affordable housing, universal health coverage and food and nutrition security expected to play a critical role in the attainment of the Country's development objectives. ICDC's Strategic Plan is anchored mainly on manufacturing sub-sector and the Corporation is implementing various initiatives aimed at identifying sound investment opportunities in order to realize its strategic objectives. Towards this end, the Corporation has developed a programme which involves collaboration and partnership with the County Governments across the country, the private sector and other government agencies.

During the year under review, The Corporation provided financial solutions to diverse investment projects which are geared towards enhancing the productivity of the manufacturing sector as well as key sub-sectors of Agro-processing, Textile, Leather, Fish Processing and Information and Communications Technology. As a result we have made significant investments by supporting the formation of six industries in the agro-processing sub-sector, three manufacturing plants, one each in ICT and retail respectively. These industrial establishments are spread across 5 counties namely counties of Kilifi, Kwale, Machakos, Laikipia and Nairobi.

The Financial Statements of the year under review give an overview of the Corporation's performance in executing its mandate, the challenges faced during the period and lessons learnt that will be taken into account in the subsequent periods. The Board remains committed to continue rolling out targeted initiatives to support business expansion and maximize related development impact by focusing on the Government's agenda of creating wealth and job opportunities for Kenyans, while maintaining financial sustainability and promoting the ICDC brand.

Overview of the Operating Environment

The global economy in 2019 was characterised by protracted trade disputes and slowdown in domestic investments. As a result, world output decelerated in growth from 3.6% recorded in 2018 to 2.9% in 2019. Emerging Markets and Developing economies recorded a higher growth of 3.7% compared to 1.7% growth registered by advanced economies. World trade volumes slowed down from a growth of 3.8% in 2018 to 0.9% in 2019 while inflation slowed from 2.3% recorded in 2018 to 2% in 2019. This slowdown in inflation was attributed to decline in energy prices, reduction in world trade prices of food and agricultural raw materials as well as modest wage levels in most countries.

On the domestic front, the economy expanded by 5.4% in 2019 compared to 6.3% in 2018. The deceleration in growth was largely attributed to drought in the first half of the year which affected the growth of the agriculture sector, a key pillar of the country's economy. Consequently, the sector registered a decline in growth from 6% in 2018 to 3.6% in 2019. Manufacturing which is the Corporation's core sector of focus, decelerated in growth from 4.3% in 2018 to 3.2% in 2019. This deceleration is attributed to constraints in the supply of raw materials from agriculture sector following a delay in rainfall in the first half of the year. Although most sectors recorded a decline in growth in 2019 relative to 2018, there was growth in nearly all sectors of the economy with more pronounced growth coming from service-oriented sectors.

The macroeconomic environment in the domestic economy was largely stable during the review period. Prices of food marginally drove up average inflation from 4.7% in 2018 to 5.2% in 2019. Interest rates on commercial loans and advances dropped marginally from 13.06% in 2018 to 12.46% in 2019 driving up the private sector borrowing appetite by 7%. Demonetization exercise that took effect between July and October 2019 marginally devalued the shilling from an average exchange rate of Kes 101.30 in 2018 to Kes 101.99 per dollar in 2019. The macroeconomic environment during the review period was also characterised by growth in current account deficit, drop in NSE 20 share index, and drop in international crude oil prices from USD 71.48 in 2018 to USD 64.12 per barrel in 2019. Finally, the review period was also associated with a notable decline in tea prices throughout the year with the average price decelerating from USD 2.59 in 2018 to USD 2.23 per Kg in 2019.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

MANAGEMENT TEAM (CONTINUED)

6. Kennedy M. Wanderi – Ag. Investment Manager

Mr. Kennedy M. Wanderi is ICDC's Acting Investment Manager since March 2019.

He has wide experience of over 20 years in Finance, Accounting and investments gained at ICDC. He is also substantively the Head of Finance and has served as the ICDC Eldoret Branch Manager. He sits on the Boards of Centum Investments Limited, General Motors E.A Limited and Almasi Beverages Limited.

He holds a Master of Business Administration degree in Finance and Banking, and a Bachelor of Business Management degree from Moi University. He is a Certified Public Accountant.

7. Renken Muinde – ICT Manager

Mr. Muinde is the ICT Manager since May 2017.

He has over twelve (12) years of experience in ICT, modern and emerging technologies in Networks, database systems, modern systems development and administration processes and data center technologies including virtualization, open source technologies, systems security, financial systems, grid and cloud computing having previously worked in both private and public sector.

Mr. Muinde holds a Bachelor's of Science from Jomo Kenyatta University of Agriculture & Technology (JKUAT) with Postgraduate professional qualifications in Systems Administration and development, Computer Networking and Accountancy (Oracle Certified Associate, CCNA, CPA) and currently pursuing Masters of Science in Computer Systems from JKUAT.

8. Herman Gacugi – Internal Audit Manager

Mr. Gacugi is the Audit Manager since November 2018

He has over 11 years' experience in Finance and Banking, with profound involvement in automated processes, E - Commerce, corporate governance, enterprise risk management, financial services regulatory framework, accounting, external and internal audit processes.

Prior to joining ICDC, he was a Management Accountant at Davis & Shirtliff supporting East African Subsidiaries, and has also served in middle and senior management level positions at Chase Bank and Commercial Bank of Africa.

Mr. Gacugi holds a Master's of Science degree in ICT from Jomo Kenyatta University of Science and Technology (JKUAT); a Bachelor's degree in Commerce – Accounting from Egerton University.

He is a Certified Public Accountant (CPAK) and a Certified Information Systems Auditor (CISA)

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

MANAGEMENT TEAM

1. William Haggai - Ag. Executive Director

Mr Haggai was appointed the Ag. Executive Director with effect from 6th June 2018.

He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Limited. Mr Haggai holds a Masters of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor. He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

He sits on the Boards of Centum Investments Limited, Isuzu East Africa Limited, Almasi Beverages Limited, Kenya Wine Agencies Limited and Development Bank of Kenya Ltd.

With effect from 16th December 2019, Mr. Haggai was given a substantive appointment as ICDC's Executive Director.

2. Mbatha Mbithi - Marketing Manager

Ms Mbithi is the Marketing Manager, a position she has held since 1st July, 2017. She was previously the Chief Manager, Operations. She has a solid background in Finance and Banking having worked in middle and senior management level positions in five commercial banks.

Prior to joining ICDC, she was Head of Credit at Family Bank Ltd. She also sits on the Boards of Eveready East Africa and Development Bank of Kenya Ltd.

Ms Mbithi holds a Master of Business Administration degree in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University. She is a member of the Kenya Institute of Management Administration from the United States International University. She is a member of the Kenya Institute of Management.

3. Grace M. Magunga - Corporation Secretary

Mrs. Grace Magunga has been the Corporation Secretary of ICDC since 2006. She has vast experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investments Ltd, Kenya National Trading Corporation Ltd and Focus Container Freight Station Ltd.

Mrs. Magunga holds a Bachelor of Law degree from the University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary (CPS K). She also holds a Master of Science Degree in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology

4. Faith Nene - Human Resources & Administration Manager

Mrs. Nene is the Human Resources & Administration Manager since September 2005. She has wide experience in Human Resource management spanning over 18 years gained at ICDC.

She holds a Master of Science degree in Human Resources Management from the University of Manchester, UK and a Bachelor of Arts degree in Government & Philosophy from the University of Nairobi. She is a member of Institute of Human Resource Management (IHRM).

5. Edward Gitau - Investment Manager, Agro processing, Energy & Education

Mr Gitau has been an Investment Manager since July 2017. Prior to this he was the Credit Manager. He has 25 years' experience in financial analysis, investment appraisal, enterprise valuations and investment monitoring. He holds a bachelor's degree in Economics and Statistics from the University of Nairobi. He is a certified investments and finance analyst (CIFA).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

GRACE M. MAGUNGA - CORPORATION SECRETARY



Mrs. Grace Magunga has been the Company Secretary of ICDC since 2006.

She has wide experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investments Limited, Kenya National Trading Corporation Limited and Focus Container Freight Station Limited.

She holds a Bachelor of Law degree from the University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary, (CPS- K).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

PATRICIA ARUWA – DIRECTOR (CONTINUED)

Currently, she is part of the team responsible for building and maintaining Government and Industry relations thereby fulfilling the liaison function for both foreign and local investors in the Business Environment and Private Sector Development Directorate of the State Department for Industrialization. She's also part of the Multi-Agency Team developing, reviewing and negotiating Kenya's International Investment Agreements.

MARGARET RIGHA - DIRECTOR



Ms Margaret Righa is currently a private consultant of education and governance issues and a director at ICDC; having been appointed to the Board on 3rd May 2019. She has been a long serving public servant both in the education sector and in the county government. She has served as a secondary school teacher for six years where she also served as a head of department. She has also served as a lecturer and head of department at the Coast Institute of technology for three years. She has also served both as a subcounty administrator and county chief officer for department of administration and devolution for the county government of Taita Taveta for five years. She has also been serving as a part time lecturer at Taita Taveta University for the past six years.

Margaret Righa is currently persuing her PHD in Leadership and governance and has a master's degree in Educational leadership and administration from Aga Khan University Institute for Educational Development East Africa. She has a Bachelor of Education degree from Moi University. During her service she had been able to undertake various courses in education, management, governance and administration.

While serving in the education sector she was able to equip various students and youths with the required skills for life and for the job market. She was also able to successfully chair various committees: committee that came up with the Affirmative Action policy for the county of Taita Taveta, committee that came up with the strategic plan for the department of administration and devolution, devolution conferences planning committees since the inception of devolution and the women and leadership planning committees. She also participated in the review of National gender and development policy at the council of governors Nairobi. She also supervised various development programmes and projects within the sub-county including the construction of Mwatate sub-county headquarters as well as coordinated public participation programmes for the department and sub-county. As a member and pioneer of the Save Our Queens secretariat was able to work jointly with other stakeholders to sensitize the community about GBV issues. Margaret was also able to coordinate budget preparation and implementation while working as a chief officer in the county. As an academician she has published two books and three journals and presented papers at local and international conferences.

PETERSON MWAI – DIRECTOR



Mr. Peterson Mwai was appointed to the Board on 3rd May 2019. Mr. Mwai is a Business man with interest in insurance and real estate. He is currently the managing director, Plan and Place Insurance Brokers Limited and a director in various companies.

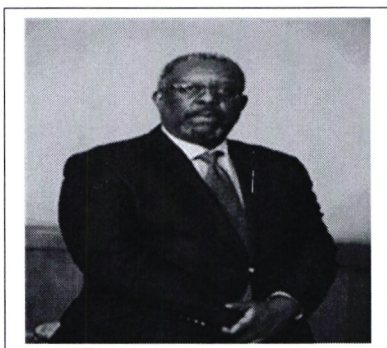
He was the past director and Chairman, IDB Capital Limited and immediate past vice chairman and director Mhasibu Society Limited. He is also the past Hon. Secretary, Insurance Institute of Kenya.

Mr. Mwai holds a bachelor degree in BCOM and ACII

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

WILSON MBOCHE WAITHAKA- DIRECTOR



Wilson Waithaka Mboche was appointed to the Board on 20th September 2018. He is a highly qualified and experienced operations executive with more than 20 years' experience across a variety of business sectors. He is a focused and effective leader with proven ability to start-up companies creating operational control, cost rationalization programs, strategic planning and execution.

In the past Wilson has been a director at Bawan Roses Ltd an agricultural company involved in growing roses and coffee for the export market. He has also been a General Manager at Brookside Dairy Ltd where he set up the milk processing plant from inception to becoming the largest milk company in East Africa. He has also been the Operations analyst at Car & General Kenya Ltd where he assessed and enhanced production operations and procedures for their Rubber milling plant and Brake lining divisions.

Currently, he is the Operations and strategic planning consultant at Capital Colors Creative Design Ltd where he is responsible for streamlining current operations to reduce costs and increase profitability. He is also a director at Island Farm Ltd where he is tasked with managing and planning the set-up of an agro-based company for export of horticultural produce.

Mr. Waithaka Mboche holds a Bachelor of Science in Business Administration and a Master of Business Administration from Bryant College-Smithfield.

HALIMA A. OMAR- DIRECTOR



Ms. Halima A. Omar was appointed to the Board on 3rd May 2019. Ms. Omar has gained close to 10 years of valuable experience in strategic management in both public and private entities. Other professional experience she has acquired include designing and implementation of cash based interventions, quality planning; monitoring and evaluation of development projects.

She previously worked as a Director, Sports, Youth, Gender, Culture and Social services at Wajir Government.

Ms. Omar holds a Master of Business Administration from Kenyatta University and a Bachelor of Business Administration for Kenya Methodist University. She also holds a Diploma in Business management.

PATRICIA ARUWA - DIRECTOR



Ms. Patricia Aruwa was appointed to the Board as the Alternate to the Principal Secretary, State Department for Industrialization, Ministry of Industry, Trade and Cooperatives with effect from 3rd May 2019. She is a long serving civil servant having joined the public service in 1993 in the Ministry of Agriculture where she previously served.

Patricia holds a Bachelors' degree in Agriculture & Home Economics from Egerton University and a Master's Degree in Development Studies from the Institute for Development Studies (IDS), University of Nairobi. She has also undertaken a number of project planning; leadership and management courses in the course of her work.

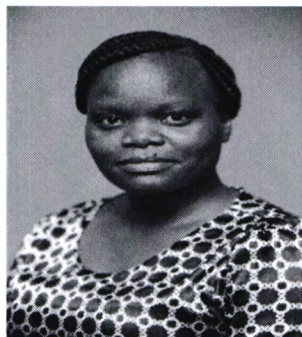
She has participated and led teams involved in community development from grassroots to the headquarter level engaging other state agencies as well as development partners. Recently, her development practice involved project conceptualization, development and management. She served as Monitoring and Evaluation Specialist for 10 years before moving to Industrialization.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

CHERYL ADHIAMBO MAJIWA -ALTERNATE DIRECTOR TO CS NATIONAL TREASURY

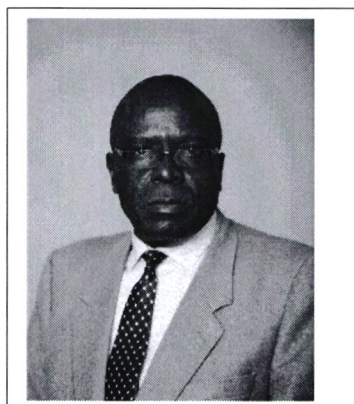


Ms Cheryl Majiwa works with The National Treasury at the Department of Government Investment and Public Enterprises since 14th October 2015. She is an Alternate Director representing the Cabinet Secretary, The National Treasury.

Her duties among others are: management and reporting of Government investments, management of Government direct and on-lend loans, revenue collection and reporting from State Corporations and review and analysis of budgets and financial reports of State Corporations. She represents the Cabinet Secretary/National Treasury in selected Boards of various State Corporations and in the Public Accounts and Public Investments Committees of Parliament.

Ms. Majiwa holds a Masters of Business Administration (Strategic Management) from the University of Nairobi and a Bachelor of Commerce (Accounting & Finance) from Strathmore University. She is a Certified Public Accountant (K), and a member of the secretariat of the Public Accounting Standards Board.

ELIUD SIFUNA – DIRECTOR



Mr. Eliud Kwoba Sifuna was appointed to the Board in September 2018.

He is a Chemical Engineer registered with the Engineers Registration Board - Kenya and has over 32 years professional and technical experience in Mining, Manufacturing, Production and Operations where he has been a team leader using lean manufacturing practices to manage costs and optimize operational efficiencies in various companies. He is a continuous improvement initiative (CII) expert with proven tangible footprints.

Mr. Sifuna worked with Magadi Soda for 18 years holding various positions including the position of Technical/Corporate Development Manager. Whilst there, he served on the Kenya Bureau of Standards technical steering committee on table, kitchen and livestock salt for over a decade. Due to his training and experience, he participated in the chemical engineering degree and diploma syllabus development for Moi University and several polytechnics in Kenya. He also worked with Pan African Paper Mills, Webuye as a Chemical Engineer and with East African Portland Cement as a Plant Technologist in the production of cement.

On a competitive confederation of British Industries (CBI) scholarship, which encompassed an exchange program between Magadi Soda Company and Brunner Mond UK, Mr Sifuna worked with Brunner Mond Plc's largest soda ash manufacturing company in Britain. He gained valuable experience in Flue gas treatment, control and management of industrial flue gas emissions. On the auspices of United Nations Industrial Development Organization (UNIDO) he also worked in India with large energy user cement and paper manufacturers on energy utilization, management and optimization.

Currently, Mr. Sifuna is a partner and Operations director with Lusike Engineering Ltd, an engineering consulting firm in western Kenya.

He holds a Master of Science degree in Chemical engineering from Mendelev Chemical Engineering Institute, Moscow Russia.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

BENARD MUTETI MUNG'ATA - CHAIRMAN

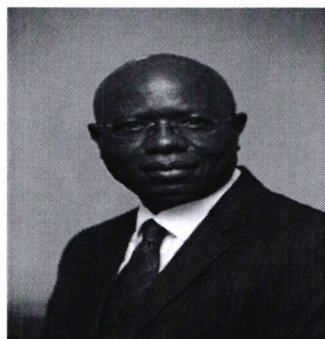


Bernard Muteti Mung'ata was ICDC's Chairman during the period under review. He is an Advocate of the High Court of Kenya and a member of the Law Society of Kenya. He has been a legal practitioner of good standing for over Twenty-Five (25) years.

Mr. Mung'ata has a wealth of experience in leadership and management. He has previously served the people of Machakos County as the Speaker of the County Assembly from the year 2013 to 2017. He was also the chairman of Machakos County Assembly Service Board for the said period. He is currently the Chairman of the Board of Management, Mumbuni Boys High School and the Chair of the old students' alumni. He is also the Chair of the Board of Directors Massmart Kenya Limited and a member of all souls development committee, Machakos diocese.

Mr. Mung'ata holds a Bachelor of Laws degree from the University of Nairobi; a post graduate degree from Kenya School of Law and is currently pursuing a Master's degree in Public International Law at the University of Nairobi.

WILLIAM HAGGAI - AG. EXECUTIVE DIRECTOR

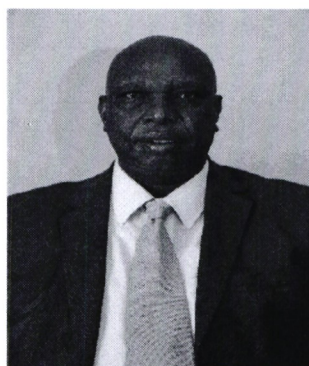


Mr. Haggai William was ICDC Ag. Executive Director during the period under review. Prior to this appointment he was the Strategy and Risk Manager from July 2015. He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation, drawn from close to 19 years' experience with IDB Capital Ltd

Mr. Haggai holds a Masters of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor. He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

With effect from 16th December 2019, Mr. Haggai was given a substantive appointment as ICDC's Executive Director.

ENG. ISAIAH KIBET CHERUIYOT -DIRECTOR



Engineer Isaiah Kibet Cheruiyot was re- appointed to the Board on 21st December 2018.

He is a Chemical Engineer with over 30 years work experience mostly in the tea extracts industry. He began his career in Finlay's Kenya, Tea Extracts (Instant Tea) Division as a Plant Manager in 1980. He rose through the ranks to the position of General Manager Tea Extracts Division. During his career at the company, Mr. Cheruiyot played a pivotal role in elevating a then pilot project to a fully-fledged Green Soluble Tea Plant for Japanese market. He retired from Finlay's in 2010. Currently, he is a technical consultant for the tea industry and a commercial dairy farmer.

Eng. Cheruiyot holds a degree in Chemical Engineering from Birmingham University, United Kingdom.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION (CONTINUED)

DELEGATED AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092 - 00100 GPO
Nairobi

BANKERS

KCB Bank Kenya Limited
Moi Avenue
P O Box 30081 - 00100
Nairobi

Commercial Bank of Africa Limited
Wabera Street
P O Box 30437 - 00100
Nairobi

Co-operative Bank of Kenya Limited
Uchumi House
Aga Khan Walk
P O Box 40310 - 00100
Nairobi

LAWYERS

Grace M. Magunga Advocates, LLB, CPS (K)
Uchumi House 19th Floor
P O Box 45519 - 00100
Nairobi, Kenya

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION

VISION

Uplifting lives through industrialization

MISSION

To promote socio-economic development of Kenya by providing financial solutions for sustainable industrial and commercial enterprises.

BRAND PROMISE

Creation of Sustainable Wealth.

CORE VALUES

Professionalism, Integrity, Reliability, Team work, Innovation.

DIRECTORS

Benard muteti Mungata	-Chairman
William Haggai	-Executive director
Isaiah Cheruiyot	-Appointed on 21 st December 2018
Cheryl Majiwa	-Retired on 30 th October 2019
Margaret Rigah	-Appointed on 3 May 2019
Peterson Mwai	-Appointed on 3 May 2019
Halima Ali Omar	-Appointed on 3 May 2019
Francis Gitari	-Appointed on 3 May 2019
Wilson M Waithaka	-Appointed on 20 September 2018
Eliud K Sifuna	-Appointed on 20 September 2018
Joseph Kipkemoi Kiplagat	-Retired on 1 April 2019
David Wachira	-Retired on 8 May 2019
Francis Kimemia	-Retired on 8 May 2019
Ambassador Julius Ole Sunkuli	-Retired on 8 May 2019
Hon. Wilfred Ombui	-Retired on 8 May 2019
Caroline Akoth Okiro	-Retired on 31 May 2019
Francisca Omasaja	-Retired on 31 May 2019
Dr. Adam Sheikh Mohamed	-Retired on 31 May 2019
Mr. Charles Kairu	-Appointed on 1 November 2019
Mr. Nicholas Gakiha	-Appointed on 5 November 2019

REGISTERED OFFICE

Uchumi House
Aga Khan Walk
P O Box 45519 - 00100
Nairobi

CORPORATION SECRETARY

Grace M. Magunga
Certified Public Secretary (Kenya)
P O Box 45519 - 00100
Nairobi

CORPORATE CONTACTS

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Mobile: 0727534572/0736229213
Email: info@icdc.co.ke
Website: www.icdc.co.ke

PRINCIPAL AUDITOR

The Auditor General
Anniversary Towers
P O Box 30084 – 00100
Nairobi

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019