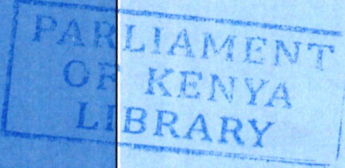


*Paper Laid
By the Member
of Majority Party
on Wednesday
28/2/2018*

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF

IDB CAPITAL LIMITED

FOR THE YEAR ENDED

30 JUNE 2017



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OFFICE OF THE AUDITOR-GENERAL
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29 SEP 2017
P. O. Box 30084 - 00100,
HEADQUARTERS
NAIROBI

IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2017

IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2017**

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IDB CAPITAL LIMITED

CORPORATE INFORMATION

Background information

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

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

Principal activities

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

Mandate

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

Our Vision

Vision of IDB Capital Limited is:

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

Our Mission

Mission of IDB Capital Limited is:

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

Core values

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

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

IDB CAPITAL LIMITED

CORPORATE INFORMATION (CONTINUED)

Registered office & headquarters

18th Floor, National Bank Building
Harambee Avenue
P.O. Box 44036 - 00100
Nairobi

Corporate contacts

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

Authorised independent auditor

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612 - 00100
Nairobi.

On behalf of:

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

Principal bankers

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

National Bank of Kenya Limited
P.O. Box 72866 - 00200
Nairobi

Legal advisors

Adera & Company Advocates	Embassy Hse, 5th Floor Harambee Avenue PO Box 54556 - 00200 Nairobi Tel 0712216228
Kibatia & Company Advocates	Blue Violets Plaza 3r Floor, Kindaruma Rd Off Ngong Rd PO Box 20631 - 00200 Nairobi Tel 020 2229495
Amolo & Gacoka Advocates	Cianda Hse 3rd Floor Koinange Street PO Box 53319 - 00200 Nairobi Tel 0735356637

IDB CAPITAL LIMITED

CORPORATE INFORMATION (CONTINUED)

Legal advisors (continued)

Mwaura & Wachira Advocates	Blue Violets Plaza 5th Floor Kindaruma Rd Off Ngong Rd PO Box 51667 - 000200 Nairobi Tel 020 2725607
Kittony Maina Karanja Advocates	Kim's Court, Theta Lane, Off Lenana Rd PO Box 74221 - 00200 Nairobi Tel 0721258263
KN Associates LLP	Ngong Lane Plaza, 3rd Floor, Ngong Lane Off Ngong Rd PO Box 27547 - 00100 Nairobi Tel 020 3861305/6/7
Moronge & Company Advocates	Electricity Hse, 6th Floor PO Box 44289 - 00100 Nairobi Tel 020 2664223
Kabaru & Company Advocates	3 rd Floor, Wing B Kenya Police Sacco Plaza, Ngara Road PO Box 16979 - 00620 Nairobi Tel 020 2731468

IDB CAPITAL LIMITED

BOARD OF DIRECTORS

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

Prof. Michael Bowen	Chairman
Mrs. Karen Kandie	Managing Director (Appointed on 8 th April 2017)
Mr. Timothy Tiampati	Ag. Managing Director (Up to 7 th April 2017)
Cabinet Secretary, The National Treasury	Mr. Henry K. Rotich, EGH
	Alternate: Geoffrey Kimani
Permanent Secretary, Ministry of Industry Trade & Cooperatives	Mr. Patrick Mwangi Nduati
	Alternate: Mr. John Mwendwa
National Bank of Kenya Limited	Represented by Mr. Wilfred Musau
Industrial and Commercial Development Corporation	Represented by Mr. Edward Gitau
Kenya National Assurance Company (In liquidation)	Represented by Mrs. Bernice Gachegu
Kenya Reinsurance Corporation Limited	Represented by Mr. Jadhiah Mwarania
Mr. Michael M. Kiswili	Independent Director
Mr. Hillary Korir	Independent Director
Company Secretary	Rebecca Akoth Kinyanjui (Mrs)
	PO Box 44036 - 00100
	Nairobi

IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT

It gives me great pleasure, on behalf of the Board of Directors, to present the Annual Report and Financial Statements of IDB Capital Limited for the year ended June 30, 2017.

Our Company operated in a challenging business environment that impacted its trading results for the year. The global economy slowed down in 2016 before recovering in 2017. Industries felt the adverse impact of this on business prospects. The domestic economy remained resilient, though the financial sector provided for business risks associated with the capping of interest rates under the Banking (Amendment) Act 2016 and political risks arising from increased political activity leading up to the 8 August 2017 general election.

Against this background, the performance of our company was underpinned by the implementation of our Strategic Plan for 2016-2021. We are in the second year of implementing this plan, which is driven by four themes, namely; funding, loans and advances, governance and people as well as operational excellence. In delivering this strategy, IDB Capital secured a KShs 1.5 billion Line of Credit with the Government of Kenya to support the financing needs of our industry. This is the first tranche of a total of USD 30 million Line of Credit signed by the Government of Kenya and the Government of India, for which IDB Capital is the implementing agency.

We shall continue to implement our Strategic Plan, guided by the Kenya's Industrial Transformation Programme (KITP-2015) that was developed and launched by our line ministry, the Ministry of Industry, Trade and Cooperative development. This five-year policy is geared towards accelerating industrial development in Kenya through five pillars, namely, launch of sector specific flagship projects, development of Kenyan SMEs, creating an enabling environment to accelerate industrial development, creating an industrial development fund and driving results through a Ministerial Delivery Unit.

Our core business is to support Kenya's industrial sector to deepen prospects for Kenya's industrialization strategy by growing local manufacturing and attracting global companies seeking to move their operations to attractive locations in Africa. Kenya is one of the fastest growing economies in the East African region and its Vision 2030 strategy is to create a robust, diversified and competitive private sector that will transform our country into one of the new, competitive industrial hubs in Africa. Investors need to take advantage of emerging opportunities from the continued rise in global production costs particularly in the traditional markets of Asia, China and Europe.

We believe Kenya's industrial sector is at a critical turning point and IDB Capital is committed to being a key driver of the industrialisation agenda. We partner as a development finance provider in the establishment and growth of small, medium and large commercial and industrial enterprises, which are the bedrock of economic growth, job creation and equity in the distribution of wealth across the country. This is our core mandate and our promise to investors in our industrial sector is to be the development finance partner of choice.

A conducive business environment is necessary for industries to grow and expand. We recognize the government's intensified efforts to ensure a stable macroeconomic environment and continuously improve the ease of doing business through modern infrastructure. Investments in the Standard Gauge Railway that links the port of Mombasa to Kenya's interior and our neighbouring countries, and upgrading of the Jomo Kenyatta International Airport to a world-class facility have strengthened the foundations of Kenya's industrial transformation. The role of IDB Capital is to secure and provide financing to leverage Kenya's long-term growth and prosperity. A stable interest rate, currency and inflation regime will help us to deliver on our mandate.

Internally, we have adopted best practices in corporate governance, as stipulated in the Mwongozo Code of Governance. We have implemented appropriate policies and supporting action plans in corporate social responsibility, governance structures and board performance. In this regard, we are delighted to welcome Mrs Karen Kandie, who was appointed Managing Director of IDB Capital in May 2017 following a competitive recruitment process. She brings on board vast experience from the financial industry. Her experience and leadership will undoubtedly contribute to IDB Capital's organizational life.

IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

Let me take this opportunity to convey my sincere gratitude to the Government of Kenya, our shareholders, business associates, all authorities and agencies that supported IDB Capital during the year. To our valued customers, we appreciate your long-term business and partnership. I wish also to thank my fellow Directors, Management and Staff for your tireless efforts and dedication in supporting the vision and mission of IDB Capital.




Thank you.



.....
Prof. Michael Bowen, PhD
Chairman




IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES

 <p>Prof. Michael Kipyego Bowen Chairman</p>	<p>Prof. Michael Kipyego Bowen is an Associate Professor of Environment and Economics at Daystar University and currently the chairman of IDB Capital Ltd. He is also the Director for Research, Publications and Consultancy at Daystar University. He was a council member of Daystar University between 2012 and 2014. Between 2013 and 2015, he was the deputy director (Quality Assurance) at Daystar University.</p> <p>Previously, he was the head of Department of Business Administration at Kenya Methodist University and has been a member of several school boards in Keiyo South Constituency. He has taught at University level for the last 15 years and supervised several masters and PhD students. He has published several articles and book chapters and has attended several international conferences spanning the globe. He was born in July 1969.</p>
 <p>Mr. Henry K. Rotich, EGH Cabinet Secretary, National Treasury</p>	<p>Mr. Henry K. Rotich, EGH, is the Cabinet Secretary, National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years.</p> <p>Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001 and 2004. He has been a Director of several Boards of State Corporations including; Kenya Reinsurance Corporation, Insurance Regulatory Board, Communication Commission of Kenya and Kenya National Bureau of Statistics.</p> <p>Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics (University of Nairobi). He was born in 1969.</p>
 <p>Mr. Geoffrey Njoroge Kimani Alternate to the CS National Treasury</p>	<p>Mr. Geoffrey Kimani is currently working at the Public Debt Management Department, National Treasury. He has worked in the public service for over 30 years holding various positions. He has wide experience in areas of public finance, policy, planning and monitoring and evaluation. He has a Masters in Economics. He was born in 1957.</p>

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mr. Patrick Mwangi Nduati, CBS Permanent Secretary, Ministry of Industry, Trade & Cooperatives</p>	<p>Mr. Patrick Nduati Mwangi is the Principal Secretary, State Department of Investment and Industry in the Ministry of Industry, Trade and Cooperatives having been appointed in March 2017. Before the latest appointment, he served as the Principal Secretary in the Ministry of Water and Irrigation from December 2015 to March 2017.</p> <p>Mr. Patrick Mwangi has over 20 years of local and international work experience in the areas of Industrial development; infrastructure and policy development; water and sanitation sector; primary health; environmental health and Agriculture programs having worked in various positions.</p> <p>He is a holder of an MSc. in Water and Environmental Management from the University of Durban; a BSc in Civil Engineering from the University of Nairobi; and a Degree in Finance and Financial Law from the University of London. He has also written four (4) publications focusing on the water sector.</p>
 <p>Mr. John Mwendwa Alternate to the PS Ministry of Industry Trade and Cooperatives</p>	<p>Mr. John Mwendwa is the Alternate Director to Permanent Secretary, Ministry of Industrialization Trade and Cooperatives (MITC). He is the Chief Financial Officer /Personal Assistant to the Permanent Secretary MITC. Previously, he worked in senior management positions in various parts of the Barclays Group. He has experience in areas of strategy, finance, risk management and operations in banking as well as Accounting and Auditing in the Manufacturing Sector.</p> <p>Mr. Mwendwa holds a Master of Commerce degree in Finance and Bachelor of Commerce in Finance. He was born in 1983.</p>
 <p>Mrs. Bernice Gachegu Representing KNAC (In Liquidation)</p>	<p>Mrs. Bernice Gachegu is the Official Receiver of Kenya National Assurance Company (KNAC - In Liquidation). She is the Registrar General at the Attorney-General's Chambers. She holds LLM Commercial Law Degree from the University of Aberdeen, an LLB Degree and BA (Hons) in Political Science from Delhi University. She has Council of Legal Education Certificate admitted to the Roll of advocates of the High Court of Kenya. She was born in 1957.</p>

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

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

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

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

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)



Mrs. Rebecca A. Kinyanjui
Chief Legal Officer/
Company Secretary

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

IDB CAPITAL LIMITED

REPORT OF THE MANAGING DIRECTOR

I am delighted to present to you the Annual Report and Financial Statements of IDB Capital for the year ended 30 June 2017. Focusing on sustainability, the report addresses resource mobilization, risk management, corporate governance and financial performance.

Our role

Changes in Government policy and the economic environment in the past three decades, including increased competition from alternative funds, loan products and pricing in the financial sector, have presented major challenges to IDB Capital and other development finance institutions. The future is to turn these challenges into opportunities for re-engineering IDB Capital to enable it capture and retain a financially stable and reliable clientele that will position it as a policy tool for industrialisation. The thrust of IDB Capital's strategy will be to promote innovative, quality and appropriately priced lending products that will help it to expand its client and capital base.

Business Operations

The company's operations and activities for the year 2016/17 were in line with the objectives of the budget and work plan derived from our Strategic Plan covering the five-year period 2016-2021. The Company intensified its interventions in key sectors of the economy under its various product offerings. Several private sector enterprises that are within the priority areas of the Government, especially those with the potential to generate high employment, benefited from our credit activities. The criteria are that the projects are feasible and commercially viable, but because of the high gestation period, they would not normally access commercial bank lending at reasonable interest rates. In view of our limited resources for on-lending, we approved for disbursement a total of KShs 261 million to various entities compared to KShs 467 million for the previous year.

Financial performance

The financial performance of IDB Capital declined in the face of very challenging macro and micro-economic situations and a constrained balance sheet. The operating profit decreased but remained positive at KShs 2.22 million, driven by a 14% decline in total income from KShs 127.27 million in 2015/16 to KShs 109.99 million in 2016/17. Operating costs increased by 60% from KShs 106.42 million in 2015/2016 to KShs 170.01 million in 2016/2017. After making a provision of KShs 62.2 million for impaired loans and advances, the overall position was a net trading loss of KShs 60.01 million, compared to a profit of KShs 20.8 million the previous year. As at 30 June, 2017 IDB Capital's balance sheet size stood at KShs 816.72 million compared to KShs 867.52 million as at 30 June 2016. The key drivers of the decline in financial performance include an increase in impairment as a result of provision for two non-performing loans whose accounts were held in one of the banks that was placed under statutory management in 2015. There was also a reduction in the level of disbursements due to constrained resources, leading to a decrease in the loan book and reduced interest earnings from fixed deposits. Despite the low performance, we sustained full compliance with statutory and regulatory requirements applicable to our operations. IDB Capital remains a going concern entity.

Resource mobilization

Our key strength as a development finance institution is the ability to catalyze investment in the private sector beyond our own resources. Resource mobilization is therefore a core driver of our mandate and is a major area of focus and continuous engagement with the Government. Towards the end of the year, IDB Capital signed a KShs 1.5 billion Line of Credit with the Government of Kenya. We were designated the implementing agency for this first tranche of a total of USD 30 million that the Government of India, through the Export-Import Bank of India, is providing to the Government of Kenya. The Line of credit is aimed at enabling industry to invest in new technology and modernize their operations to achieve higher quality and productivity. The funds are available on a long-term basis with a grace period, addressing a key constrain to the financing needs of the industrial sector.

IDB CAPITAL LIMITED

REPORT OF THE MANAGING DIRECTOR (CONTINUED)

Internal operations

To increase transparency in our operations as a state-owned enterprise, we adopted the use of the National Treasury's IFMIS-supported procurement, which is accessible to the general public on our website. During the year, our procurement policy anchored on realizing value for money, besides supporting Government policies on Buy Kenya Build Kenya, and the Access to Government Procurement Opportunities (AGPO) for the youth, women and persons living with disability.

We are in the process of modernising our operations to leverage more on information technology. In the year under review, we started the implementation of a Loan Management System (LMS) and an inclusive Enterprise Resource Planning (ERP) system that are expected to be completed in the coming year. We upgraded our internet connectivity and implemented a Wi-Fi solution to allow for more efficient connectivity, communication and sharing of documentation.

Risk management

The banking environment was challenging, punctuated by interest rate caps implemented in September 2016 and limited resources for on-lending. Although IDB Capital does not come under the ambit of the Banking Act, client expectation for lower interest rates limited the headroom to price for risk. This, coupled with a thin balance sheet, made it difficult for IDB Capital to maintain profitable operations. In view of the declining profitability, the company is operating on a lean staff complement, and has put in place cost management structures to manage its operating costs. The staff complement will be reviewed in tandem with the future growth of the company.

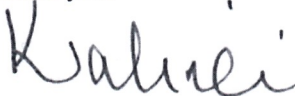
Going forward

As I settle down to the management of IDB Capital, I see great potential in positioning the company as a financing partner to the Government's industrialization agenda. In the coming year, IDB Capital will accelerate activities under the Exim Line of Credit to support industrial enterprises to take up new and upgrade existing technology. The company will also intensify its resource mobilization, especially with the aim of supporting industries with long term funding needs for capital investment. In the medium to long term, we will focus on building a resilient business model, which is well suited to address the needs of a growth-focused industrial sector. We will intensify efforts to build solid partnerships and work closely with various partners and in particular, other development finance institutions both at local and international level, industry associations, various government ministries and county governments.

We also remain committed to the Association of African Development Finance Institutions (AADFI) as demonstrated by our active membership and an ongoing A rating. This continues to testify to the robustness of our financial, governance and operational frameworks. Besides, IDB Capital remained certified on ISO 9001:2008 in regard to provision of finance to industrial and commercial concerns.

I sincerely thank you all our stakeholders for your continued support to IDB Capital and promise to collaborate with you further to deepen our contribution to Kenya's industrial expansion for greater economic and social prosperity.

Thank you.



Karen N. Kandie
Managing Director

IDB CAPITAL LIMITED

MANAGEMENT TEAM



Mrs. Karen Kandie
Managing Director

Mrs. Karen Kandie is the Managing Director of IDB Capital Limited. She serves as an Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT) and a member of the Capital Markets Tribunal. Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance & Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PriceWaterhouseCoopers.

She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B.Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K). Karen is currently pursuing a Doctorate in Business Administration. She was born in 1968.



Mr. Timothy K. Tiampati
Chief of Credit

Mr. Timothy Tiampati is the Chief of Credit. He joined IDB Capital Limited as a Project Officer in April 1985 and rose through the ranks to be the Chief of Credit. He previously worked as an Economist/Statistician at Kerio Valley Development Authority. He holds a Master of Science (Economics) from Odessa Institute of National Economics, former U.S.S.R. He is a Director of Nzoia Sugar Company. He was born in 1959.



Mrs. Rebecca A. Kinyanjui
Chief Legal Officer/Company Secretary

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

IDB CAPITAL LIMITED

MANAGEMENT TEAM (CONTINUED)



Mrs. Priscilla N. Njuguna
Manager, Legal Affairs

Mrs. Priscilla Njuguna is the Legal Affairs Manager and is the legal advisor to the Institution. She joined IDB Capital Limited as a Legal Officer in May 1988. She previously worked as a Registrar in the Ministry of Lands and Housing. She holds a Bachelor of Law degree LLB (Hons) from the University of Nairobi, a Diploma in Legal Practice from The Kenya School of Law and is a Certified Public Secretary, (CPS- K).



Mrs. Anne N. Gitau
Manager, Finance & Accounts

Mrs. Anne Gitau has been the Manager Finance and Accounts since January 2011 and is responsible for overall financial management and accounting functions. She has a wide experience in finance and accounting gained at various levels having joined IDB Capital Limited in May 1991. She is a holder of a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant and Secretary, (CPA-K, CPS- K) and is a member of ICPAK.



Mrs. Judith A. Omachar
Manager, Credit

Mrs. Judith Omachar is the Manager Credit. She is responsible for overall credit management functions. She has over 20 years' experience in credit management gained at IDB Capital. She holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K).

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT

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

The Board of Directors

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

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

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

Board Committees

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

	Director	Status	Committees		
			Audit	Finance & Investment	HR
1	Geoffrey Kimani (Alternate CS Treasury)	Non-Executive	✓		✓
2	John Mwendwa (Alternate PS MITC)	Non-Executive		✓	✓
3	Michael M. Kiswili	Non-Executive	✓		
4	Wilfred Musau	Non-Executive	✓ (C)		
5	Bernice Gachegu	Non-Executive	✓		✓ (C)
6	Jadiah Mwarania	Non-Executive		✓ (C)	
7	Edward J. G. Gitau	Non-Executive		✓	
8	Hillary Korir	Non-Executive			✓
9	Timothy Tiampati	Chief of Credit		✓	✓
10	Karen Kandie	Managing Director		✓	✓

(c) – Chairman/person of Committee

Board Meetings

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

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Meetings (continued)

	Board	Audit	Finance & Investment	HR
Number of Meetings	9	5	2	2
Prof. Michael Bowen	9			
Geoffrey Kimani (Alternate CS Treasury)	8	2		1
John Mwendwa (Alternate PS MITC)	5	1		1
Michael M. Kiswili	8	5		
Wilfred Musau	7	5		
Bernice Gachegu	5	4		1
Jadiah Mwarania	7		2	
Edward J. G. Gitau	9		2	
Hillary Korir	9			
Timothy Tiampati	7		2	2
Karen Kandie	1		1	

Executive Committees

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

Board Evaluation

A Board evaluation is conducted by the State Corporation Advisory Committee (SCAC) every year. The evaluation covers the performance of the Chairman, individual directors, the Managing Director and the Company Secretary. The Corporate Board performance score for the last evaluation was 86.86%.

Internal Controls

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

Risk Management

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

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Compliance with Laws and Regulations

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

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

Directors' Benefits and Loans

The directors are entitled to fees and sitting allowances, the details of which have been disclosed in the financial statements, in Note 29. No loans were advanced to Directors during the financial year.

IDB CAPITAL LIMITED

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

In IDB's Corporate Social Responsibility (CSR) policy, we aim for the integration of business operation and our corporate values in ways that ensure that the interests of all stakeholders including shareholders, customers, employees, the community and the environment are reflected in our policies and actions.

We are committed to continuous improvement in our Corporate and Social Responsibility (CSR) strategy; encouraging our business partners to strive for excellent performance; acting in a socially responsible way; continually improving our performance and meeting all relevant legislation, besides encouraging our staff to being mindful of the effect of their actions on any natural resource.

Our Mission is "providing financial solutions to enterprises in Kenya to enable them establish, expand and modernize their operations to foster sustainability and competitiveness in economic development". Our mission is in tandem with our mandate and it defines the goals for which undertake in the context of sustainability, competition and social well-being.

We consider the community a key stakeholder in our business initiatives and our CSR activities aim to make a difference under key social pillars such as education and environment. We devote resources to support projects such as graduate youth internship and industrial attachment programs to facilitate skills transfer, environmental care in which we have committed to comply with the Environmental Management and Coordination Act (EMCA). In the year, we supported 4 interns on requisite industrial skilling, financially supported towards the building of a school project in rural Kenya and complied fully with environmental sustainability requirements including conducting an environmental audit at IDB as contracted in Performance contracting targets of FY 2016-2017.

IDB CAPITAL LIMITED

SUSTAINABILITY REPORT

IDB Capital Limited, just like any progressive corporate, we embrace all aspects of sustainable development. We remain conscious on ways people (and larger planet) get affected through our business operations. IDB operates in a way that safeguards against unfair business practices like corruption, bribery, nepotism in recruitment among others. We believe in responsible approaches to developing relationships among the companies we finance, other actors and the communities we serve as a vital part of delivering on our successful business model. When carrying out our business, we consult our customers for continual improvements, we determine the environmental, social and economic issues during project reviews and we continually review our policies and business practices to encourage engagement with would be marginalised parties including Small and Medium Enterprises (SMEs). This is clearly institutionalised in our credit appraisal processes.

The success of IDB as a financial institution is based on our people and we seek to recruit, retain, reward and develop the best creative talent in our organisation. We continually seek to improve through training the needs of our employees. In the year, IDB attracted its funding resources from its own internally generated resources as well as benefiting from a USD 15 million Line of Credit guaranteed by National Treasury while its core expenditure lines were dedicated to supporting its mandate-promotion, establishment, expansion and modernization of medium and large scale industrial enterprises.

IDB CAPITAL LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 30 JUNE 2017**

The Directors submit their report together with the audited financial statements for the year ended 30 June 2017, which disclose the state of affairs of the Company.

1. Principal activities

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

2. Results

The net loss for the year of KShs 60.01 million (2016 – profit of KShs 20.80 million) has been transferred to accumulated profits.

3. Dividends

The directors do not propose payment of a dividend (2016 – KShs 352,079).

4. Directorate

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

5. Business review

The year ended 30 June 2017 has been a challenging year. The Company recorded a net loss of KShs 60.01 million (2016: net profit of KShs 20.8 million). Total income dropped by 14% to KShs 109.99 million in 2017 compared to 2016 which stood at KShs 127.27 million. Total expenses increased by 60% to KShs 170.01 million compared to the year ended 30 June 2016 which stood at KShs 106.42 million. The costs were significantly higher in the current year due to increase in prices and impairment provisions.

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

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

6. Relevant audit information

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

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

IDB CAPITAL LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

7. Auditor

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

KPMG Kenya, who were appointed by the Auditor-General, have carried out the audit for the year ended 30 June 2017.

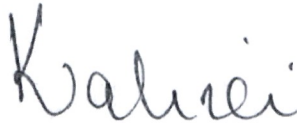
8. Employees

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

9. Approval of financial statements

The financial statements were approved by the Board of Directors on 21 September 2017.

BY ORDER OF THE BOARD



Director

Date: 21 September 2017

IDB CAPITAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of IDB Capital Limited set out on pages 27 to 78 which comprise the statement of financial position at 30 June 2017, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the statement of cash flows for the year ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

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

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


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

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

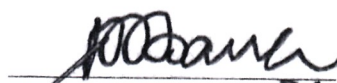
The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 21 September 2017 and were signed on its behalf by:



Prof. Michael Bowen
Chairman



Wilfred Musau
Director

Date: 21 September 2017

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of IDB Capital Limited set out on pages 27 to 78 which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by KPMG Kenya, auditors appointed under Sec 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 the financial statements present fairly, in all material respects, the financial position of IDB Capital Limited as at 30 June 2017, 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 Kenya Companies Act, 2015.

Confirmation on Lawfulness and Effectiveness on use of Public Money

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

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Company in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements on IDB Capital Limited for the year ended 30 June 2017

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 issue an auditor's report that include my opinion in accordance with 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risk 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 material misstatements resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.
- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the

purpose of giving an assurance on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of the management's use of 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 doubts on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Company to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the Company's audit. I remain responsible for the audit opinion.
- Perform such other procedures as I consider necessary in the circumstances

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

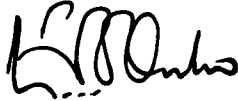
I also provide management with a statement that I have complied with the relevant ethical requirements regarding independence, and to communicate with them all relations and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.
- In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and

- The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

22 January 2018

IDB CAPITAL LIMITED

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
Interest income	6	107,336	121,504
Non-interest income	7	1,997	3,606
Other operating income	8	<u>466</u>	<u>620</u>
Total operating income		<u>109,799</u>	<u>125,730</u>
Other (loss)/income			
Net impairment loss on loans and advances	9	(62,237)	(11,953)
Other income	10	<u>191</u>	<u>1,495</u>
Total other loss		(62,046)	(10,458)
Total income		<u>47,753</u>	<u>115,272</u>
Operating expenses			
Staff costs	11	(57,726)	(53,629)
Administrative expenses	11	(37,122)	(29,006)
Operating lease expenses	11	(9,587)	(8,952)
Depreciation and amortisation	11	<u>(3,337)</u>	<u>(2,881)</u>
Total operating expenses		(107,772)	(94,468)
(Loss)/profit before tax	12	(60,019)	20,804
Tax expense	13	—	—
(Loss)/profit for the year attributable to the owners of the Company		(<u>60,019</u>)	<u>20,804</u>
Dividends:			
Final – proposed	14	<u>—</u>	<u>352</u>

The notes set out on pages 32 to 78 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
(Loss)/profit for the year		<u>(60,019)</u>	<u>20,804</u>
Other comprehensive income			
Actuarial loss on remeasurement on defined benefit assets	21	—	(4,465)
		—	(4,465)
Total comprehensive income for the year attributable to the owners of the Company		<u>(60,019)</u>	<u>16,339</u>
Earnings per share attributable to the owners of the Company			
Basic and diluted earnings per share (KShs)	15	<u>(1.48)</u>	<u>0.51</u>


The notes set out on pages 32 to 78 form an integral part of these financial statements.

IDB CAPITAL LIMITED

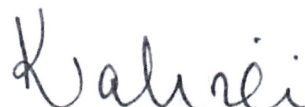
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

ASSETS	Note	2017 KShs'000	2016 KShs'000
Current assets			
Cash and bank balances	16	9,929	8,052
Deposits with financial institutions	17	257,257	210,445
Loans and advances to customers	18(d)	75,274	136,587
Current tax recoverable	13(b)	25,689	32,157
Other assets	19	<u>3,766</u>	<u>4,955</u>
		<u>371,915</u>	<u>392,196</u>
Non-current assets			
Loans and advances to customers	18(d)	406,673	434,703
Financial assets (unquoted)	20	28,928	28,905
Defined benefit asset	21	-	925
Property and equipment	22	7,346	8,447
Intangible assets	23	<u>1,873</u>	<u>2,342</u>
		<u>444,820</u>	<u>475,322</u>
TOTAL ASSETS		<u>816,735</u>	<u>867,518</u>
LIABILITIES AND EQUITY			
Current liabilities			
Other liabilities	25	<u>21,614</u>	<u>12,378</u>
Shareholders' funds			
Share capital	26	810,020	810,020
Retained (deficit)/earnings		(14,899)	44,768
Proposed dividends	14	<u>-</u>	<u>352</u>
Total equity		<u>795,121</u>	<u>855,140</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>816,735</u>	<u>867,518</u>

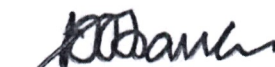
The financial statements on pages 27 to 78 were approved for issue by the board of directors on 21 September 2017 and were signed on its behalf by:



Prof. Michael Bowen
Chairman



Mrs. Karen Kandie
Managing Director



Wilfred Musau
Director

The notes set out on pages 32 to 78 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Share capital KShs'000	Retained (deficit)/earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
2017:				
At 1 July 2016	810,020	44,768	352	855,140
Loss for the year	-	(60,019)	-	(60,019)
Total comprehensive income for the year	-	(60,019)	-	(60,019)
Transactions with owners recorded directly in equity				
Transfer of undeclared/unpaid proposed dividends for 2016	-	352	(352)	-
At 30 June 2017	810,020	(14,899)	-	795,121
2016:				
At 1 July 2015	810,020	28,546	235	838,801
Profit for the year	-	20,804	-	20,804
Other comprehensive income	-	(4,465)	-	(4,465)
Transfer	-	235	(235)	-
Total comprehensive income for the year	-	16,574	(235)	16,339
Transactions with owners recorded directly in equity				
Proposed dividends for 2016	-	(352)	352	-
At 30 June 2016	810,020	44,768	352	855,140

The notes set out on pages 32 to 78 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
Cash flows from operating activities			
(Loss)/profit before tax		(60,019)	20,804
Adjustments for:			
Depreciation of property and equipment	22	2,502	2,088
Amortisation of intangible assets	23	827	793
Gain on disposal of property and equipment	10	-	(1,296)
Write-off of property and equipment		10	37
Exchange gain on retranslation of investments	20	(23)	(174)
Movements in defined benefit asset	21	925	(2,516)
Dividend income on financial assets (unquoted)	8	(466)	(620)
Operating (loss)/profit before changes in operating assets and liabilities		(56,244)	19,116
Changes in operating assets and liabilities			
Other assets		1,189	5,299
Loans and advances to customers		89,343	(145,365)
Other liabilities		<u>9,236</u>	<u>3,739</u>
Cash generated from operating activities		43,524	(117,211)
Dividends received		466	620
Net income tax refund/ (paid)		<u>6,468</u>	<u>(5,287)</u>
Net cash from operating activities		<u>50,458</u>	<u>(121,878)</u>
Cash flows from investing activities			
Proceeds from disposal of property and equipment		-	1,296
Purchase of property and equipment and work in progress (WIP)	22	(1,411)	(5,999)
Purchase of intangible assets and Work in progress (WIP)	23	(358)	(1,942)
Net cash from investing activities		(1,769)	(6,645)
Net increase/(decrease) in cash and cash equivalents		48,689	(128,523)
Cash and cash equivalents at start of the year		<u>218,497</u>	<u>347,020</u>
Cash and cash equivalents at end of the year	27	<u>267,186</u>	<u>218,497</u>

The notes set out on pages 32 to 78 form an integral part of these financial statements.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. REPORTING

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

2. BASIS OF PREPARATION (Continued)

(c) Going concern

The Company recorded a net loss of KShs 60.019 million for the year ended 30 June 2017 (2016 – profit of KShs 20.8 million) and, as of that date the Company had accumulated losses of KShs 14.899 million (2016 – accumulated profits of KShs 44.768 million). The Company's liquidity position is adequate to cover maturing obligations in the foreseeable future.

(d) Functional and presentation currency

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

(e) Use of estimates and judgements

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

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

(i) *Net interest income*

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

(ii) *Fee income*

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

(iii) *Dividend income*

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

(b) Translation of foreign currencies

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

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

(c) Offsetting

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

(d) Income taxes

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes (continued)

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

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

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

(e) Share capital

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

(f) Dividends

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

(g) Earnings per share

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

(i) Classification

The Company classifies its financial instruments into the following categories:

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

Financial instruments held during the year were classified as follows:

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

(ii) Recognition and measurement

Financial assets

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

(ii) *Recognition and measurement - continued*

Financial assets - continued

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

Financial liabilities

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

Derecognition

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

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

Offsetting

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

(i) Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations

(i) *Defined Benefit Scheme*

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

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

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

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

With effective 31st December 2011 the scheme closed to new entrants. Member aged below 45 years as at 31 December 2011 ceased accrual in the scheme as at this date. In addition, members above 45 years had the option to continue accruing benefits in the scheme but all active members above 45 years opted to join the new defined contribution arrangement and therefore future accrual in the scheme ceased with effect from 1 January 2012. This change in the arrangement has triggered a curtailment under IAS 19, the impact of which has been determined and reflected in Note 21.

(ii) *Statutory defined contribution plan*

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

(iii) *Termination benefits*

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations (continued)

(iv) Short term employee benefits

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

(k) Property and equipment

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

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

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

	Rate %
Furniture and fittings	12.50
Computers, copiers and faxes (under office equipment)	25.00
Computers hardware - server (under office equipment)	12.50
Office equipment - others	12.50
Furnishings (other assets)	12.50
Motor vehicles	16.70

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

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

(l) Intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of non-financial assets

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

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

(n) Cash and cash equivalents

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

(o) Provisions

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

(p) Contingent liabilities

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

(q) Comparatives

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations

The Company has adopted the following new standards and amendments during the period, including consequential amendments to other standards. The nature and effects of the changes are explained below:

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

New standard or amendments
— Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
— Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
— Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
— Equity Method in Separate Financial Statements (Amendments to IAS 27)
— IFRS 14 Regulatory Deferral Accounts
— Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
— Disclosure Initiative (Amendments to IAS 1)
— Annual improvements cycle (2012-2014) – various standards

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirement was effective from 1 January 2016.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

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

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard was effective for financial reporting years beginning on or after 1 January 2016.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

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

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

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

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

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

Annual improvements cycle (2012-2014 – various standards)

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	Servicing contracts Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Applicability of the amendments to IFRS 7 to condensed interim financial statements Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	Discount rate: regional market issue Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	Disclosure of information 'elsewhere in the interim financial report Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2017, and have not been applied in preparing these financial statements.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 (continued)*

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

New standard or amendments	Effective for annual periods beginning on or after
– Disclosure Initiative (Amendments to IAS 7)	1 January 2017
– Recognition of Deferred Tax Assets for unrealized Losses (Amendments to IAS 12)	1 January 2017
– IFRS 15 Revenue from Contracts with Customers	1 January 2018
– IFRS 9 Financial Instruments (2014)	1 January 2018
– Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
– Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
– IFRS 16 Leases	1 January 2019
– IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
– IFRIC 23 Income tax exposure	1 January 2019
– IFRS 17 Insurance Contracts	1 January 2021
– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)

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

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(r) **New standards and interpretations (continued)**

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

Disclosure Initiative (Amendments to IAS 7) (continued)

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

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

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The adoption of these changes will not have a material impact on the financial statements of the Company.

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

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

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

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

The Company is assessing the potential impact on its financial statements resulting from the application of this amendment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(r) **New standards and interpretations (continued)**

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9, which is likely to be significant.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

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

The following clarifications and amendments are contained in the pronouncement:

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

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

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

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

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

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

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

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

The adoption of these changes will not have a material impact on the financial statements of the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

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

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

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

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not have a material impact on the financial statements of the Company.

IFRS 16: Leases

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

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued

IFRS 16: Leases (continued)

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

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

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

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

The standard does not require a company to recognise assets and liabilities for:

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

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

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

- (ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

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

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

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

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

The adoption of these changes will not have a significant impact on the amounts and disclosures of the Company's financial statements.

IFRIC 23 Income tax exposures

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

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

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

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued*

IFRIC 23 Income tax exposures

If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

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

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

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

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted. The adoption of these changes will not have a material impact on the financial statements of the Company.

IFRS 17 Insurance Contracts

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

An entity shall apply IFRS 17 Insurance Contracts to:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued

IFRS 17 Insurance Contracts (continued)

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the company expects to recognise in the future.

IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the company determines that losses are expected.

IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

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

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

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

The adoption of IFRS 17 will not have an impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2017 - continued

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

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

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

The adoption of these changes will not have a material impact on the financial statements of the Company.

4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Critical accounting estimates and assumptions

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

(i) Allowance for credit losses

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) *Carrying value of unquoted equity investments*

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

(iii) *Taxation*

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

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

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

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

Risk management framework

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk management framework (continued)

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

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

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

(a) Credit risk

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

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

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

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

<i>Carrying amount:</i>	2017 KShs '000	2016 KShs '000
Loans and advances to customers - Net (Note 18(a))	481,947	571,290
Deposits with financial institution (Note 17)	257,257	210,445
Interest receivable on deposits (Note 19)	819	1,939
Cash at bank (Note 16)	<u>9,920</u>	<u>8,005</u>
Total	<u>749,943</u>	<u>791,679</u>

Loans and advances to customers

The maximum exposure to credit risk from loans and advances to customers is KShs 481 million (2016: KShs 571 million), which is 64% of total financial assets (2016: 72%).

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

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

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

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

- Normal
- Watch
- Substandard
- Doubtful
- Loss

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

	2017 KShs '000	2016 KShs '000
<i>Individually impaired:</i>		
Grade 3: Impaired – Substandard	-	92,166
Grade 4: Impaired – Doubtful	60,265	-
Grade 5: Impaired – Loss	<u>92,166</u>	<u>6,459</u>
Allowance for impairment	152,431 (75,480)	98,625 (19,209)
Carrying amount	<u>76,951</u>	<u>79,416</u>
<i>Collectively impaired:</i>		
Grade 2: Watch	-	148,618
Grade 1: Normal	406,770	345,323
Portfolio impairment provision	406,770 (1,774)	493,941 (2,067)
Carrying amount	<u>404,996</u>	<u>491,874</u>
Total carrying amount	<u>481,947</u>	<u>571,290</u>

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

Write off policy

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

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

<i>Loans and advances</i>	Gross KShs'000	Net KShs'000
30 June 2017:		
Grade 3: Individually impaired	-	-
Grade 4: Individually impaired	60,265	-
Grade 5: Individually impaired	<u>92,166</u>	<u>76,951</u>
	<u>152,431</u>	<u>76,951</u>
30 June 2016:		
Grade 3: Individually impaired	92,166	79,416
Grade 4: Individually impaired	-	-
Grade 5: Individually impaired	<u>6,459</u>	<u>-</u>
	<u>98,625</u>	<u>79,416</u>

The Company holds collaterals against loans and advances to customers in the form of a mortgage interests over property, other registered securities over assets, and guarantees. The fair value of collateral held against impaired loans is KShs 232.4 million at 30 June 2017.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (Continued)

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

The liquidity ratio at the balance sheet date was:	2017	2016
At 30 June	1,216%	1,561%
Average for the year	1,231%	2,204%
Highest for the year	1,624%	3,585%
Lowest for the year	727%	1,561%

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

	Up to 1 month KShs'000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years KShs'000	Total KShs'000
At 30 June 2017					
Financial liabilities					
Other liabilities	18,529	512	2,573	-	21,614
Total financial liabilities	<u>18,529</u>	<u>512</u>	<u>2,573</u>	<u>-</u>	<u>21,614</u>
At 30 June 2016					
Financial liabilities					
Other liabilities	466	11,384	528	-	12,378
Total financial liabilities	<u>466</u>	<u>11,384</u>	<u>528</u>	<u>-</u>	<u>12,378</u>

(c) Market risk

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(i) Interest rate risk

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

	Effective interest rate	Interest bearing KShs'000	Non-interest bearing KShs'000	Total KShs'000
At 30 June 2017				
Assets				
Cash in hand		-	9	9
Bank deposits and balances	9.10%	257,257	9,920	267,177
Loans and advances to customers	17.0%	329,516	152,431	481,947
Equity investments (Unquoted)		-	28,928	28,928
Other assets		-	3,766	3,766
		<u>586,773</u>	<u>195,045</u>	<u>781,818</u>
At 30 June 2017				
Equity and liabilities				
Other liabilities		-	21,614	21,614
		<u>-</u>	<u>21,614</u>	<u>21,614</u>
At 30 June 2017				
		<u>-</u>	<u>21,614</u>	<u>21,614</u>
Interest rate sensitivity – 2017				
		<u>586,773</u>	<u>173,431</u>	<u>760,204</u>
At 30 June 2016				
Assets				
Cash in hand		-	47	47
Bank deposits and balances	14.0%	210,445	8,005	218,450
Loans and advances to customers	14.5%	472,665	98,625	571,290
Equity investments (Unquoted)		-	28,905	28,905
Current tax recoverable		-	32,157	32,157
Other assets			4,955	4,955
		<u>683,110</u>	<u>172,694</u>	<u>855,804</u>
At 30 June 2016				
Equity and liability				
Other liabilities		-	12,378	12,378
		<u>-</u>	<u>12,378</u>	<u>12,378</u>
At 30 June 2016				
		<u>-</u>	<u>12,378</u>	<u>12,378</u>
Interest rate sensitivity – 2016				
		<u>683,110</u>	<u>160,316</u>	<u>842,426</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(i) Interest rate risk - continued

A change of 1 % in interest rates would have increased or decreased profit or loss by KShs 5,867,730 (2016: KShs 6,831,100). The Company's operations are subject to the risks of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Company's business strategies.

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

Assets	2017			2016		
	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000
Cash in hand	-	-	-	-	-	-
Bank deposits and balances	257,257	(2,572)	2,572	210,445	(2,104)	2,104
Loans and advances to customers	329,516	(3,295)	3,295	472,665	(4,727)	4,727
Equity investments (Unquoted)	28,928	-	-	28,905	-	-
Other assets	3,766	-	-	4,955	-	-
	619,467	(5,867)	5,867	716,970	6,831	6,831
Equity and liabilities						
Other liabilities	21,614	-	-	12,378	-	-
	21,614	-	-	12,378	-	-
Net interest income increase/(decrease)	-	(5,867)	5,867	-	(6,831)	6,831
Tax charge at 30%	-	1,760	(1,760)	-	2,049	(2,049)
Impact on profit or loss after tax	-	(4,107)	4,107	-	(4,782)	4,782

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(ii) Currency risk

The Company is exposed to currency risk through transactions in foreign currencies. The entity's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit and loss account. In respect of monetary assets and liabilities in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Company is exposed to as at 30 June 2017 and 30 June 2016.

The significant currency positions are detailed below:

At 30 June 2017	USD KShs'000	Euros KShs'000	Total KShs'000
Assets			
Cash and balances with banks	292	9	301
Other assets	7,128	-	7,128
Total assets	7,420	9	7,429
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	7,420	9	7,429
At 30 June 2016			
Assets			
Cash and balances with banks	491	147	638
Other assets	7,105	-	7,105
Total assets	7,596	147	7,743
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	7,596	147	7,743

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, profit or loss before tax would have decreased by KShs 742,900 (2016: KShs 774,300). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

(d) Operational risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Operational risk (continued)

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

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

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

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

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

(e) Capital management

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

(f) Compliance and regulatory risk

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

		2017	2016
		KShs'000	KShs'000
6.	INTEREST INCOME		
	Interest income on loans	89,680	85,276
	Interest income on staff loans	592	980
	Interest income on fixed deposits	17,060	35,233
	Interest income on nostro accounts	<u>4</u>	<u>15</u>
		<u>107,336</u>	<u>121,504</u>
7.	NON-INTEREST INCOME		
	Appraisal fees	<u>1,997</u>	<u>3,606</u>
8.	OTHER OPERATING INCOME		
	Dividend income	<u>466</u>	<u>620</u>
9.	NET IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
	Net increase in provision charged to profit and loss account (Note 18(b))	<u>62,237</u>	<u>11,953</u>
10.	OTHER INCOME		
	Gain on disposal of property plant and equipment	-	1,296
	Exchange gain	189	195
	Miscellaneous income receipt	<u>2</u>	<u>4</u>
		<u>191</u>	<u>1,495</u>
11.	OPERATING EXPENSES		
	Employee benefits expense:		
	Employment:		
	Salaries and wages	40,214	40,340
	Staff and other expenses	6,764	9,116
	Staff medical	6,185	3,705
	Staff training	1,506	1,593
	Gratuity	1,391	877
	Pension fund	741	514
	Movement in defined benefit assets through profit or loss	<u>925</u>	<u>(2,516)</u>
	Total employment costs	<u>57,726</u>	<u>53,629</u>

The average number of persons employed by the Company during the financial year was 21 (2016: 20).

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

11. OPERATING EXPENSES (Continued)	2017	2016
	KShs'000	KShs'000
Administrative expenses:		
Executive directors' remuneration:		
- Salary	1,773	-
Non-executive directors' remuneration:		
- Fees and allowances	5,662	3,446
Security expenses	574	554
Office cleaning and maintenance	728	706
Subscriptions	1,130	1,117
Advertising, publicity and donations	1,574	930
Insurance	362	448
Audit fees – Auditor-General	220	230
Audit fees – KPMG	2,200	2,088
Professional services	7,387	6,073
Vehicle running and maintenance	296	242
Telephone, internet and postage expenses	1,986	2,039
Travelling and entertainment	4,586	2,855
Printing and stationery	695	511
Licenses	1,154	3,369
Bank charges	166	186
Repairs and maintenance	2,411	2,704
Other expenses	<u>4,218</u>	<u>1,508</u>
Total administrative expenses	<u>37,122</u>	<u>29,006</u>
Operating lease expense:		
Rent and service charge	8,334	7,700
Parking fees	<u>1,253</u>	<u>1,252</u>
Total operating lease expenses	<u>9,587</u>	<u>8,952</u>
Depreciation and amortisation:		
Amortisation of intangible assets	827	793
Depreciation and write offs of property and equipment	<u>2,510</u>	<u>2,088</u>
Total depreciation and amortisation expenses	<u>3,337</u>	<u>2,881</u>
12. (LOSS)/PROFIT BEFORE TAX		
(a) Items charged		
The following items have been charged in arriving at (loss)/profit before tax:		
Directors' remuneration:		
- Salary	1,773	-
- Fees and allowances	5,662	3,446
Employee benefits expense (Note 12(b))	3,811	4,073
Depreciation of property and equipment	2,502	2,088
Amortisation of intangible assets	827	793
Operating lease expenses	9,587	8,952
Net foreign exchange gain	189	195
Auditor's remuneration (Auditor-General and KPMG)	<u>2,420</u>	<u>2,318</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

12. (LOSS)/PROFIT BEFORE TAX (Continued)

	2017	2016
	KShs'000	KShs'000
(b) Employee benefits expense		
The following items are included in employee benefits expense:		
Defined contribution scheme	3,758	3,796
National Social Security Fund	<u>53</u>	<u>277</u>
	<u>3,811</u>	<u>4,073</u>

13. INCOME TAX

(a) Income tax expense

Deferred income tax	-	-
Current income tax	<u>-</u>	<u>-</u>
Tax expense	<u>-</u>	<u>-</u>

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

	2017	2016
	KShs'000	KShs'000
(Loss)/profit before income tax	(60,019)	20,804
Actuarial loss on defined benefit asset	<u>-</u>	(4,465)
Adjusted (loss)/ profit before income tax	(60,019)	16,339
Tax calculated at a rate of 30%	(18,005)	4,901
Tax effect of:		
Expenses not deductible for tax purposes	1,055	986
Income not deductible for tax purposes	(140)	(102)
Movement in deferred income tax through profit or loss not recognised (note 24)	17,090	(7,125)
Movement in deferred tax in other comprehensive income not recognised	<u>-</u>	<u>1,340</u>
Tax expense	<u>-</u>	<u>-</u>

(b) Current tax recoverable

Balance at 1 July	32,157	26,869
Charge for the year	-	-
Withholding tax credit	2,421	5,288
Tax (refund)/paid in the year	<u>(8,889)</u>	<u>-</u>
Balance at 30 June	<u>25,689</u>	<u>32,157</u>

14. DIVIDENDS

No dividends were proposed in 2017. The final dividend in respect of the year ended 30 June 2016 of KShs 0.01 per share amounting to KShs 352,079 has been transferred back to retained earnings. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

15. EARNINGS PER SHARE

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

	2017	2016
Net profit attributable to shareholders (KShs'000)	<u>(60,019)</u>	<u>20,804</u>
Weighted average number of ordinary shares in issue during the year ('000)	<u>40,501</u>	<u>40,501</u>
Basic earnings per share (KShs)	<u>(1.48)</u>	<u> 0.51</u>

There were no potentially dilutive shares outstanding at 30 June 2017 and 30 June 2016. Diluted earnings per share are therefore the same as basic earnings per share.

	2017 KShs'000	2016 KShs'000
16. CASH AND BANK BALANCES		
Cash in hand	9	47
Cash at bank	<u>9,920</u>	<u>8,005</u>
	<u>9,929</u>	<u>8,052</u>

17. DEPOSITS WITH FINANCIAL INSTITUTIONS

Commercial Bank of Africa Limited	54,000	-
Family Bank Limited	50,000	65,000
National Bank of Kenya Limited	45,826	-
Bank of Africa Kenya Limited	25,000	75,475
HFC Limited	50,800	69,970
Equity Bank	6,000	-
The Co-operative Bank of Kenya Limited	25,472	-
African Export - Import Bank	<u>159</u>	<u>-</u>
	<u>257,257</u>	<u>210,445</u>

The weighted average effective interest rate on placement with banks at 30 June 2017 was 10% (2016 – 14%).

18. LOANS AND ADVANCES TO CUSTOMERS

	2017 KShs '000	2016 KShs '000
(a) Loans and advances to customers		
Commercial loans	525,894	561,033
Interest and other fees receivable	18,382	13,929
Employee loans	<u>14,925</u>	<u>17,604</u>
Gross loans and advances to customers	559,201	592,566
Less: Provision for impaired loans and advances (Note 18(b))	<u>(77,254)</u>	<u>(21,276)</u>
Net loans and advances	<u>481,947</u>	<u>571,290</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances

At 1 July	21,276	8,622
Net increase in provision for impairment charged to profit and loss account (Note 9)	62,237	11,953
Recoveries	200	701
Write offs	(6,459)	-
At 30 June	<u>77,254</u>	<u>21,276</u>

(c) Concentration of risk

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

	2017 KShs '000	2017 %	2016 KShs '000	2016 %
Manufacturing	15,046	2.7	62,989	10.6
Food and animal feeds	92,166	16.5	240,643	40.4
Engineering	175,577	31.4	129,658	21.8
Business services	2,133	0.4	2,548	0.4
Mining and quarrying	58,132	10.4	55,876	9.4
Transport, communications and power	-	-	6,459	1.1
Healthcare services	42,677	7.6	62,640	10.5
Building & Construction	152,367	27.2	14,149	2.4
Others	6,178	1.1	-	-
Staff loans	14,925	2.7	17,604	3.4
	<u>559,201</u>	<u>100</u>	<u>592,566</u>	<u>100</u>

	2017 KShs'000	2016 KShs'000
(d) Maturity analysis		
Matured and maturing within 1 year	152,528	157,863
Less: Provision for impaired loans and advances	(77,254)	(21,276)
	75,274	136,587
Maturing after 1 year	<u>406,673</u>	<u>434,703</u>
	<u>481,947</u>	<u>571,290</u>

19. OTHER ASSETS

Prepayments	1,033	1,911
Interest receivable on deposits	819	1,939
Deposits and other recoverables	<u>1,914</u>	<u>1,105</u>
	<u>3,766</u>	<u>4,955</u>
	2017	2016

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

20.	FINANCIAL ASSETS (UNQUOTED)	KShs'000	KShs'000
	Non-current - Available for sale financial assets		
	Equity investments	<u>28,928</u>	<u>28,905</u>
	There is no active market for the equity investments and accordingly fair value cannot be reliably measured, therefore these are carried at cost.		
	They are categorised as follows:		
		2017	2016
		KShs'000	KShs'000
	Non-current		
	<i>Manufacturing sector:</i>		
	Nzoia Sugar Company Limited	5,000	5,000
	South Nyanza Sugar Company Limited	1,000	1,000
	<i>Financial institutions and investment companies:</i>		
	Consolidated Bank of Kenya Limited	20,800	20,800
	African Export-Import Bank	<u>7,128</u>	<u>7,105</u>
		33,928	33,905
	Impairment loss (Nzoia Sugar Company Limited)	<u>(5,000)</u>	<u>(5,000)</u>
		28,928	28,905
	Current	—	—
	Total financial assets	<u>28,928</u>	<u>28,905</u>

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

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

	Level 3	Total
At 30 June 2017	Shs'000	Shs'000
Available-for-sale financial assets	<u>33,928</u>	<u>33,928</u>
At 30 June 2016		
Available-for-sale financial assets	<u>33,905</u>	<u>33,905</u>

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

20. FINANCIAL ASSETS (UNQUOTED) (Continued)

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

	Available for sale financial assets	Total
	Level 3	
	KShs'000	KShs'000
30 June 2017:		
At start of year	33,905	33,905
Exchange gain on retranslation of investment denominated in foreign currency	23	23
	33,928	33,928
At end of year	33,928	33,928
Total gains for the year included in the profit or loss for assets held at the end of the reporting period	23	23
30 June 2016:		
At start of year	33,731	33,731
Exchange gain on retranslation of investment denominated in foreign currency	174	174
	33,905	33,905
At end of year	33,905	33,905
Total gains for the year included in the profit or loss for assets held at the end of the reporting period	174	174

21. DEFINED BENEFIT ASSET

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

An approval to transfer the scheme funds to the IDB Capital Limited Staff Defined Contribution Pension Scheme was given by Retirement Benefits Authority (RBA) on 25 November 2014. All the members consented to the transfer of their funds from the Defined Benefit (DB) to the Defined Contribution (DC) scheme in September 2014. The transfers commenced with effect from 1 September 2015 and the quarterly instalments to date amount to KShs 54.7 million. The balance of KShs 26.1 million is expected to be fully transferred to the DC scheme by 1 March 2018.

The discharge to transfer the instalment due in September 2017 amounting to KShs 8.7 million has already been signed and will be executed on due date leaving a balance of KShs 17.4 million which will be transferred in two instalments.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

21. DEFINED BENEFIT ASSET (Continued)

IDB as the sponsor of the scheme therefore does not have any further obligation/ liability towards the members once the deficit was fully settled and the members consented to transfer to the DC scheme. The DB asset of KShs 925,000 recorded at 30 June 2016 has been adjusted for to a nil balance as at 30 June 2017.

22. PROPERTY AND EQUIPMENT

2017:	Motor vehicles KShs '000	Office equipment KShs '000	Furniture & fittings KShs '000	Other assets KShs '000	WIP KShs '000	Total KShs '000
Cost						
At 1 July 2016	9,599	19,863	5,393	2,441	-	37,296
Additions	-	1,101	-	-	310	1,411
Write offs	-	(75)	(24)	-	-	(99)
At 30 June 2017	9,599	20,889	5,369	2,441	310	38,608
Depreciation						
At 1 July 2016	4,163	17,649	5,032	2,005	-	28,849
Charge for the year	952	1,100	145	305	-	2,502
Write offs	-	(65)	(24)	-	-	(89)
At 30 June 2017	5,115	18,684	5,153	2,310	-	31,262
Net carrying amount	4,484	2,205	216	131	310	7,346
2016:						
	Motor vehicles KShs '000	Office equipment KShs '000	Furniture & fittings KShs '000	Other assets KShs '000	WIP KShs '000	Total KShs '000
Cost						
At 1 July 2015	6,651	20,105	5,451	2,441	-	34,648
Additions	5,700	299	-	-	-	5,999
Write offs	-	(81)	-	-	-	(81)
Disposals	(2,752)	(460)	(58)	-	-	(3,270)
At 30 June 2016	9,599	19,863	5,393	2,441	-	37,296
Depreciation						
At 1 July 2015	6,651	16,923	4,801	1,700	-	30,075
Depreciation charge	264	1,230	289	305	-	2,088
Write offs	-	(44)	-	-	-	(44)
Disposals	(2,752)	(460)	(58)	-	-	(3,270)
At 30 June 2016	4,163	17,649	5,032	2,005	-	28,849
Net carrying amount	5,436	2,214	361	436	-	8,447

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

23. INTANGIBLE ASSETS - Software

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

Intangible assets	Software Costs KShs '000	WIP KShs '000	Total KShs '000
2016:			
At 1 July 2015	32,283	-	32,283
Additions	<u>1,942</u>	-	<u>1,942</u>
At 30 June 2016	<u>34,225</u>	-	<u>34,225</u>
Amortisation			
At 1 July 2015	31,089	-	31,089
Charge for the year	<u>794</u>	-	<u>794</u>
At 30 June 2016	<u>31,883</u>	-	<u>31,883</u>
Net carrying amount	<u>2,342</u>	<u>-</u>	<u>2,342</u>

24. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2016 – 30%). Deferred tax assets and liabilities, and the deferred tax charge in profit or loss account is attributable to the following items:

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

24. DEFERRED INCOME TAX (Continued)

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

30 June 2016	At 1 July 2015 KShs '000	Prior year adjustment KShs '000	Movement in profit & loss KShs '000	Movement in other comprehensive income KShs '000	At 30 June 2016 KShs '000
Deferred income tax asset					
Property and Equipment	2,008	(46)	(603)	-	1,359
Intangible assets	-	46	(103)	-	(57)
Provisions for doubtful debts	559	-	61	-	620
Provision for leave	697	-	(175)	-	522
Defined benefit scheme	(862)	-	(755)	1,340	(277)
Tax losses carried forward	195,684	(775)	(5,550)	-	189,359
Net deferred tax asset	198,086	(775)	(7,125)	1,340	191,526
Deferred tax asset not recognised	(198,086)	775	7,125	(1,340)	(191,526)
	-	-	-	-	-

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

24. DEFERRED INCOME TAX (Continued)

The total tax losses as at 30 June 2017 were KShs 686,042,028 (2016 – KShs 631,197,111). The tax losses will expire as follows:

Arising in:	Tax losses KShs'000	Expiring:
2010 and earlier	(579,913)	30 June 2019
2011	(27,271)	31 June 2020
2014	(22,751)	30 June 2023
2017	(56,107)	30 June 2026
Tax losses carried forward	(686,042)	

A deferred tax asset of KShs 208,238,000 as at 30 June 2017 (2016 – KShs 191,526,000) has not been recognised due to uncertainty as to the availability of future taxable profits, against which the tax losses could be utilised. Uncertainty arises due to absence of a precise estimation of future taxable profits.

25. OTHER LIABILITIES

	2017 KShs'000	2016 KShs'000
Sundry creditors	2,511	2,590
Accruals	16,018	8,911
Other liabilities	512	-
Provision for gratuity	<u>2,573</u>	<u>877</u>
	<u>21,614</u>	<u>12,378</u>

26. SHARE CAPITAL

	No. of shares	Issued and paid up share capital KShs'000
At 1 January and 30 June 2017		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>
At 1 January and 30 June 2016		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>

The total authorised share capital is KShs 1,000,000,000 (2016 – KShs 1,000,000,000) made up of 46,000,000 (2016 – 46,000,000) 'A' ordinary shares of KShs 20 each and 4,000,000 'B' ordinary shares of KShs 20 each.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

26. SHARE CAPITAL (Continued)

The percentage shareholding at 30 June 2016 and 30 June 2017 is as follows:

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

27. CASH AND CASH EQUIVALENTS

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

	2017 KShs'000	2016 KShs'000
Cash and bank	9,929	8,052
Deposits with financial institutions	<u>257,257</u>	<u>210,445</u>
	<u>267,186</u>	<u>218,497</u>

28. OFF BALANCE SHEET COMMITMENTS

Operating lease commitments

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

	2017 KShs'000	2016 KShs'000
Not later than 1 year	8,152	7,751
Later than 1 year and not later than 5 years	<u>31,778</u>	<u>35,827</u>
	<u>39,930</u>	<u>43,578</u>

29. RELATED PARTY TRANSACTIONS

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

	<u>18,349</u>	<u>17,025</u>
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(b) Directors' emoluments

CEO expenses	1,773	-
Directors expenses	4,053	2,679
Directors fees	<u>1,565</u>	<u>767</u>
	<u>7,391</u>	<u>3,446</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

29. RELATED PARTY TRANSACTIONS (Continued)

		2017		2016
(c) Directors Allowances		KShs'000		KShs'000
Prof. Michael Bowen		749		-
Peterson Mwai		-		83
Michael Kiswili		323		186
Hillary Korir		747		-
John Kenduiywa		-		367
Representatives of Institutional Directors				
i. Treasury				
Geoffrey Kimani		279		58
Felister Kivisi		-		58
ii. MITC				
John Mwendwa		193		252
Julius Korir		-		15
iii. KNAC				
Bernice Gachegu		277		244
iv. Kenya-Re				
Jadiah Mwarania		193		129
Nicodemus Gekone		64		15
Jacqueline Njui		21		43
v. ICDC				
Edward Gitau		279		208
Erastus Shako		21		-
vi. NBK				
Wilfred Musau		156		-
Henry Maosa		86		150
Munir Ahmed		-		107
		<u>3,388</u>		<u>1,915</u>

30. CONTINGENT LIABILITY

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

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

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

31. EVENTS AFTER THE BALANCE SHEET DATE

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

32. BUDGET VS ACTUAL COSTS

Revenues	Original Budget KShs'000	Adjustments KShs'000	Final Budget KShs'000	Actual on comparable basis KShs'000	Performance difference KShs'000	Explanation
Interest Income			126,533	107,336	(19,197)	Budgeted level of loan disbursements not met hence the reduced interest income
Non-interest Income			2,594	1,997	(597)	Budgeted level of loan disbursements not met hence the reduced appraisal fees
Other Operating Income			-	466	466	Divided received from Afrexim Bank had not been budgeted for.
Other Income			-	391	391	Write back from Non Performing Accounts (NPA's) and exchange gain from forex revaluation had not been budgeted for.
Total Revenues	-	-	129,127	110,190	(18,937)	
Expenses						
Interest Expense			-	-	-	
Staff Costs			65,619	57,726	7,893	Salary review which had been budgeted for not implemented.
Administrative Expenses			44,894	99,559	(54,665)	Stringent cost cutting measures on most of the expenditure items and the fact that the
Operating Lease Expenses			9,123	9,587	(463)	Legal fees charged on the preparation of lease agreement not budgeted for.
Depreciation and Amortisation			4,536	3,337	1,199	The budgeted level of Capital expenditure (CAPEX) not realised hence the lower levels of depreciation.
Total Expenses	-	-	124,172	170,209	(46,036)	
Surplus/(deficit)	-	-	4,955	(60,019)	(64,973)	

*Paper hand
by the leader
of Majority
Party on
Wednesday
25/02/18*

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
UNCLAIMED FINANCIAL ASSETS
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**



**UNCLAIMED FINANCIAL ASSETS AUTHORITY
(UFAA)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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a Background Information

The Unclaimed Financial Assets Authority (UFAA/ the "Authority") was created under the Unclaimed Financial Assets Act, No. 40 of 2011 (the "Act") to administer unclaimed financial assets.

The Board of Directors was gazetted under Legal Notice No.16272 of 9th November 2012.

b Principal Activities

The objects and functions of the Authority as defined by the Act include:

- (i) Enforce and generally administer the provisions of the Act.
- (ii) Receive all payments required by the Act to be made to the Unclaimed Assets Trust Fund (the "Fund").
- (iii) Make payments out of the Fund to the rightful owners in accordance with the provision of the Act.
- (iv) Manage and invest the funds of the Authority.
- (v) Advise the Cabinet Secretary on national policy to be followed with regard to unclaimed assets and implement all Government policies related to it.
- (vi) Perform such other functions as are conferred on it by the Act or other written law.

c Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2016 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	FCPA Kellen Eileen Kariuki, MBS
2.	Manager Unclaimed Financial Assets Line	John Kihara Mwangi
3.	Manager Information and Communication Technology	Francis Mathenge Muchina
4.	Manager Human Resource & Administration	Caroline Chepkurui Chirchir
5.	Manager Finance & Accounting	Henry Taabu Nyegenye
6.	Ag Manager Procurement	Beatrice Taigong
7.	Ag Head of Legal Services	Christine Mangwana

d Fiduciary Oversight Arrangements

Board Oversight

The Board of Directors has the overall oversight responsibility of the Authority. As detailed in the section on corporate governance, this responsibility is administered through various committees of the Board that have specific roles, including the Finance and Human Resource Committee; Audit, Risk and Governance Committee and the Technical committee.

Parliamentary Committees

The following Parliamentary Committees also have fiduciary oversight responsibilities over the Authority's operations; the Parliamentary Budget Committee oversees budgeting; the Parliamentary Investment Committee oversees investment decisions and the Parliamentary Accounts Committee oversees financial accountability.

e Authority Headquarters

2nd Floor, Pacis Centre
Slip Road, off Waiyaki Way, Westlands
P O Box 28235 - 00200
Nairobi, Kenya

f Authority's contacts

+254 020 4343440
+254 706 866 984
+254 736 559 152
info@ufaa.go.ke

g Bankers

Kenya Commercial Bank - KICC Branch
KICC Building, Harambee Avenue
PO Box 46950 - 00100
Nairobi, Kenya

h Independent auditor

The Auditor General
Kenya National Audit Office
Anniversary Towers, Loita Street
P.O Box 30084 - 00100
Nairobi, Kenya

Delegated/Authorised Auditor:

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
PO Box 43963 – 00100
Nairobi, Kenya



i Principal Legal Advisor



The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Head of Legal Services

Ms Christine Mangwana
Acting Head of Legal Services
Unclaimed Financial Assets Authority

Profile of Directors

	<p>Mr. Joseph Kipchumba Kigen Katwa – Chairman</p> <p>Katwa is a founding Partner at Kigen & Kemboi Advocates. He is also a Certified Public Secretary and Commissioner for Oaths.</p> <p>He is a graduate of the University of Nairobi with a Bachelor of Laws LL.B (Hons.) and Masters (LLM) degree. He was admitted to the Bar as an Advocate of the High Court of Kenya in 1996 and has been in continuous practice since then.</p> <p>Katwa commenced his legal practice with the firm of Nyairo & Company Advocates before moving on to the firm of Kibet & Company Advocates and later Ochieng, Onyango, Kibet & Ohaga Advocates. He has over the years handled various commercial transactions for leading commercial banks, manufacturing and general business companies & Co-operative Societies. He has handled Conveyancing, Commercial Work, Bank Security Documentation, Debt Recovery, Civil Litigation & Appeals, Arbitration, Corporate Governance, Succession, Divorce, Land Law and Criminal Defense.</p> <p>Katwa was appointed as a Board member in October 2015, and thereafter, in accordance with the Unclaimed Financial Assets Act, elected by the Directors as the Chairman of the Board.</p>
	<p>Mr. Henry K. Rotich - Cabinet Secretary, The National Treasury, Non-Executive Director</p> <p>Mr Henry Rotich is the Cabinet Secretary, The National Treasury.</p> <p>He holds a Masters’ degree in Economics and Bachelors’ degree in Economics (First Class Honours) both from the University of Nairobi. He also holds a Masters’ degree in Public Administration (MPA) from the Kennedy School of Government, Harvard University.</p> <p>Prior to his appointment as Cabinet Secretary, he had been the Head of Macroeconomics at The National Treasury, then Ministry of Finance, since 2006 where he was involved in the formulation of macroeconomics policies aimed at achieving the Government’s development priorities.</p> <p>Prior to joining the Ministry of Finance, Mr. Rotich worked in the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office to work as an economist. Mr. Rotich has also been a Director on several boards of state corporations, including the Insurance Regulatory Authority, Industrial Development Bank, the Communication Commission of Kenya and Kenya National Bureau of Statistics.</p> <p>Mr Rotich is a Non-Executive member of the Board as per the Unclaimed Financial Assets Act as read in line with the Cabinet secretary (incorporation) to the Treasury Act.</p>

	<p>Mr. Daniel M. Mutua</p> <p>Mr. Mutua is a Deputy Director, Investment in the National Treasury.</p> <p>He holds a Bachelor of Education (Economics/Business)-Kenyatta University (1991) and MBA-ESAMI/Maastricht (2006) and is a Registered Certified Investment and Financial Analyst (CIFA). Mr. Mutua has undergone Intensive training in many areas such as Investment appraisal, Enterprise Risk Analysis, Corporate Governance, Performance Management, Project management, Procurement, Public Finance and holds several certificates on Public Private Partnerships from IP3 Institute, in Washington DC-USA.</p> <p>He has over 25 years Public sector experience in various Ministries including-TSC, Ministry of Labour, Office of the Vice President, Culture & National Heritage and currently in the National Treasury-Directorate of Public Investments and Portfolio management. He has previously served as an Alternate Director in the Boards of ICDC, EPZA, WSTF, NBA, KNAC (2001) Ltd, and University of Eldoret Council.</p> <p>Mr Mutua was appointed in October 2015 as an Alternate Director to the CS, National Treasury.</p>
	<p>Dr Parmain ole Narikae – Non-Executive Director</p> <p>Dr Parmain ole Narikae is currently the Chief Executive Officer of the Kenya Industrial Estates.</p> <p>He has a career spanning over 20 years in the Banking Sector having previously served in various capacities in the Co-op Bank Group of Companies and Chase Bank where he served as the Director External and Regulatory Affairs, with roles that included administrative co-ordination of the various functions towards the realization of Bank's objectives as well as the development of capabilities of personnel in the Bank. In addition, he was the Chairman of the Chase Group Foundation.</p> <p>He holds a PhD in Strategic Management from United States International University, a Masters' in Business Administration and is a graduate of the European Institute of Business Administration (INSEAD).</p> <p>Dr Narikae was appointed in October 2015 as a member of the Board.</p>
	<p>Mr Gabriel K. Njenga – Non-Executive Director</p> <p>Mr Karanja is a founding Partner at Karanja-Njenga Advocates, a fully-fledged Corporate Commercial Law firm, established in 1993.</p> <p>He holds a Bachelor of Laws (LLB) from Sheffield University, Sheffield United Kingdom. He attained a Diploma in law from the Kenya School of Law in 1991 and has been an Advocate of the High Court of Kenya since 1993. He also holds a Specialized Honours Degree Bachelor of Arts (BA) in Political Science from York University, Toronto Canada. He is also a Certified Public Secretary.</p> <p>Mr Njenga was appointed in October 2015 as a member of the Board.</p>

	<p>Ms. Jacqueline Oyuyo - Non-Executive Director</p> <p>Jacqueline is the Managing Partner of Umsizi LLP, where she practices as an Advocate, Corporate Secretary, Arbitrator and Mediator to a host of clientele.</p> <p>She holds an MBA in Global Technology Management from the American Intercontinental University, and is a Fellow of the Chartered Institute of Arbitrators, a Certified and Judiciary-Accredited Mediator and an accredited Governance Auditor.</p> <p>She is committed to demystifying corporate governance in a way that makes sense for each Authority that she deals with, and is adept at tackling regulatory compliance. She currently serves on the Governing Council of the Institute of Certified Public Secretaries of Kenya (ICPSK), as well as on various Boards ranging from non-profit entities and has served in various State Corporations in the capacity of non-executive Director.</p> <p>Jacqueline was appointed in September 2016 as a member of the Board.</p>
	<p>FCPA Kellen Eileen Kariuki, MBS</p> <p>Kellen was appointed as CEO of the Unclaimed Financial Assets Authority in February 2015.</p> <p>She has a degree in Accounting and MBA in Strategic Management from United States International University and an MSc in International Human Resource Management from Cranfield University in the UK.</p> <p>Kellen served the Citibank N.A for 23 years, where she held several positions of senior leadership in the Bank. She has held numerous Board positions such as the Chairperson of Citibank Tanzania Limited, Director AMREF International, Director Resolution Insurance Limited, Director in Citibank Uganda Limited, Chair of the Citibank Kenya Provident Fund, Director of Cititrust (Kenya) Limited, and Director Kenya Roads Board (KRB). She is a founding member of the Board of Advisors of the Strathmore Business School; and has served as an elected council member of ICPAK.</p> <p>She is a Fellow of the Institute of Certified Public Accountants of Kenya (FCPAK) and was recognized by the Kenya Institute of Management as the "Professional Manager of the Year" during the Company of the Year Awards in 2003.</p>

Name	Designation
FCPA Kellen Eileen Kariuki, MBS	Chief Executive Officer
Mrs Caroline Chepkurui Chirchir	Manager Human Resource & Administration
Mrs Nelly Awori Matheka	Corporation Secretary (Resigned December 2016)
Ms Christine Mangwana	Ag Head of Legal Services
Mr John Kihara Mwangi	Manager, Unclaimed Financial Assets Line
Mr Francis Mathenge Muchina	Manager, Information and Communication Technology
Mr Pius Kibet Kimutai	Manager, Audit, Risk & Assurance
Mr Alex Leonard Musungu	Manager, Procurement (Resigned April 2017)
Ms Beatrice Taigong	Ag Manager Procurement
CPA Henry Taabu Nyegenye	Manager, Finance & Accounting

Unclaimed Financial Assets Authority
Chairman's Statement
For the year ended 30 June 2017

The year under review was an important period for the Unclaimed Financial Assets Authority (the "Authority") being its third budget year and considering the various structures that needed to have been in place for its operations. It was a good learning experience for all of us.

The Authority was set up to enforce and generally administer the provisions of the Unclaimed Financial Assets Act, 2011 (the "Act"). In particular, to receive all payments required by the Act to be made to the Unclaimed Assets Trust Fund (the "Fund"); make payments out of the Fund to the rightful owners in accordance with the provisions of the Act; manage and invest the funds of the Authority; advise the Cabinet Secretary on national policy to be followed with regard to unclaimed assets; implement all Government policies related to it and perform such other functions as are conferred on it by the Act or other written law. Since the deployment of management staff from the National Treasury, the Authority has made some considerable progress in becoming fully operational. We facilitated development and eventually the gazettelement of Unclaimed Financial Assets Regulations in February 2016; developed policies and operational guidelines and filled some senior positions in the Authority, among other activities.

In the year under review, the Board of Directors undertook a mid-term review of the strategic plan. During this review, the significance of re-unification as a core mandate of the Authority was highlighted leading to its elevation as a strategic objective. In addition, the Board approved utilization of Trust Fund income to supplement Exchequer grants in facilitating operations of the Authority, in view of the growing operational levels.

The Board during the year also conducted and finalized legal audit review of the unclaimed Financial Assets Act, 2011 which made significant proposals to the changes necessary not only in the Act but also the general regulatory framework of unclaimed assets.

Going forward, the Board will facilitate putting in place necessary legislative measures to enhance the role that Unclaimed Assets play in the economic development of the country. This will be through conducting a comprehensive review of the Unclaimed Financial Assets Policy. In addition, to help focus the strategic direction of the organization, the Board will oversee the development review of the Authority's Strategic Plan for FY 2018-2023.

While a lot needs to be done, it is acknowledged that significant steps have been made. I am sure that we will be able to meet public expectations of prompt service delivery, effective enforcement of the Act and regular consultation due to the rising standards of performance expected of us as a public institution.

I wish to thank my Board members and fellow Directors of the Authority, for the tremendous effort that that have been put in ensuring that the Authority grows and is managed as per requirements of the law. My appreciation also goes to the CEO of the Authority, management and staff of the Authority for their commitment and efforts in ensuring that the Unclaimed Assets Trust Fund grows but is also safeguarded, while ensuring re-unification is done to the unclaimed assets 'rightful owners. Finally, my appreciation goes to the President of the Republic of Kenya, His Excellency Uhuru Kenyatta, the Government administration, and the public at large, for the tremendous support that we have received.



Joseph K. Kigen

Chairman,
Unclaimed Financial Assets Authority

Date... 2 November 2017

The financial year 2016/17 was critical in making the Authority fully functional. The year saw the Authority successfully pay its first claimants of unclaimed assets. This was a point of major celebration and a key milestone to the Authority.

During the year under review, the Authority also received approval from the Board and the National Treasury, to utilize Trust Fund Income for its operations, to supplement Exchequer grants. This is a major step in ensuring the Authority manages to implement its mandate with reduced pressure on exchequer revenues.

Other achievements worth mentioning during the financial year under review include:

- Mid-term review of the strategic plan for the organization in which emphasis was put on ensuring the role of re-unification as a mandate of the Authority is strengthened;
- Enhancement of education and awareness initiatives so as to enhance visibility and information about unclaimed assets to the public at large;
- Implementation of an ERP and procurement of Unclaimed Assets System to enhance efficiency and effectiveness in transaction processing and management of information and data;
- Legal audit of other legislations that impact on the Unclaimed Financial Assets Act so as to identify legislative challenges that need to be re-looked at in enhancing the Authority's ability to handle its mandate.
- Holding of consultative meetings with strategic regulatory institutions with a view to ensuring compliance with the provisions of the Unclaimed Financial Assets Act;
- Signing memoranda of understanding with various regulators and professional bodies to strengthen cooperation and coordination of the various players in the unclaimed assets regime;
- Enhance reunification, compliance and public awareness initiatives so as to better respond to the needs of our stakeholders;
- Recruitment of additional staff to build capacity of the Authority in discharging its mandate;
- Finalization of the staff job evaluation exercise with the Salaries and Remuneration Commission (SRC) so as to align the organization's operations to the requirements of the public sector in its management, including aligning of the staff roles and responsibilities;
- Movement of staff to the 3rd floor office space to enhance efficiency in operations by availing sufficient office space not only to staff but also the stakeholders.

While a lot was achieved, the Authority still faces significant challenges that need concerted effort to surmount. It should be pointed out that the Authority during the year experienced the exit of the Head of Strategy; the Corporation Secretary, Manager Procurement and Senior Legal Officer. This was majorly due to the competitive nature of the staff that the Authority strives to bring on board. As we move forward, the Board of Directors will look into more initiatives to ensure the Authority not only attracts the best, but also retains its staff so as not only to sustain institutional memory but also maintain high standards of service delivery.

The Authority will enhance its strategic positioning by developing a new Strategic Plan to help shape the organization's direction from FY 2018/19 to 2013/24, in the second half of financial year 2017/18. In addition, the organization will enhance its cooperation with other players by continuing to engage other professional and regulatory institutions.

I wish to thank the Cabinet Secretary of the National Treasury, Mr Henry Rotich, EGH, together with the Principal Secretary, the Chairman of the Board of Directors of the Authority, the Board of Directors as a whole for the support that my office has been accorded in discharging my role as the first CEO of the Authority and Managing Trustee of the Unclaimed Assets Trust Fund.

Unclaimed Financial Assets Authority
Report of the Chief Executive Officer
For the year ended 30 June 2017

This appreciation goes to my management team and all staff of the Authority for the significant efforts we have put in place in ensuring the unclaimed assets regime is not only well entrenched, but also service delivery to the public is maintained at high levels.



FCCA Kellen Eileen Kariuki, MBS
Managing Trustee & CEO

Date... 1 November 2017

The Authority recognizes that high standards of Corporate Governance throughout the Authority are essential for the delivery of the Authority's strategic objectives. To this end, the Board is committed to conducting the Authority's business in accordance with high standards of corporate governance with a view to creating and delivering value to its stakeholders. The Authority has adopted a system of internal controls, a risk management framework and corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Authority. As a public sector organization dedicated to promoting good governance, the Authority's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act, Internal Codes of Conduct and Corporate Governance guidelines, as well as the Board Charter and its committees.

One of the Authority's core values is "Integrity – We will safeguard all unclaimed financial assets entrusted to us with honesty and transparency". Consistent with this, the Authority reiterates its' commitment to good corporate governance as an essential foundation of the Authority's performance and sustainability.

The Board Charter

The Board Charter is a commitment by the members of the Board to discharge the mandate of the Authority. It seeks to ensure the effectiveness of each Director's contribution in the governance of the Authority by facilitating full and free exercise of independent judgment and professional competencies. It outlines the rules that guide the Board and does not in any way replace or supersede any laws and regulations that govern the Authority.

The Board of Directors

As per the Unclaimed Financial Assets Act 2011, the Board consists of six (6) non-executive members and the Chief Executive Officer. As at 30th June 2017, five (5) Board Members and the CEO were in post, with appointment of one (1) member being awaited.

Board Responsibilities

The independence of the Board of Directors from the Authority's Management is ensured by the separation of functions of the Chairman and Chief Executive Officer and a clear definition of their responsibilities. This helps in achieving an appropriate balance of power, increased accountability, improved capacity for decision-making and independence of management. The Board has been assigned a clear mandate and retains ultimate responsibility for the Authority's performance.

The Board takes the primary responsibility of determining the Authority's vision, mission and values; deciding the Authority's strategic objectives and key elements of governance processes underpinning operations of the Authority. It retains full and effective control over the Authority by monitoring Management in its implementation of plans and strategies, review of management accounts, and major capital investments and expenditure. The Board strives to act beyond the minimum requirements and benchmarks the Authority's performance against international best practice.

UFAA BOARD MEETINGS ATTENDANCE FROM 1 JULY 2016 TO 30 JUNE 2017

Board meetings attendance

No.	Name	Meetings attended	Meetings absent
1.	Mr Joseph K. Katwa - Chairman	12 out of 12	0
2.	Mr. Daniel M. Mutua - Alt. CS /NT	11 out of 12	1
3.	Dr. Parmain ole Narikae - Member	12 out of 12	0
4.	Mr. Gabriel K. Njenga - Member	11 out of 12	1
5.	Ms. Jacqueline L. Oyuyo	8 out of 9	1
6	Mrs. Kellen E. Kariuki, MBS - CEO	12 out of 12	0

Board Committees

The Board Committees facilitate decision-making to assist the Board in execution of its duties, powers and authority. However, delegation of authority to the committees does not in any way mitigate or dissipate the discharge by the Board of its duties and responsibilities. Board committees have been established with formal written terms of reference and observe the same rules of conduct and procedures as the Board. The following three (3) committees have been set up:

Finance and Human Resource Committee

This committee assesses and advises on the integrity of the Authority's financial statements, financial plans and budgets. It reviews periodic financial performance, management accounts and the Authority's general financial health. It also advises the Board on the organizational structure, core functions and staff establishment. It provides guidance on Human Resource policies and makes recommendations that promote operational efficiency and capacity enhancement.

The current members are:

Dr. Parmain ole Narikae	Chairman
Mr. Daniel M. Mutua	Member / Alt.CS /NT
Mr. Gabriel K. Njenga	Member
Ms. Jacqueline L. Oyuyo	Member
Mrs. Kellen E. Kariuki, MBS	CEO

Finance And Human Resource Committee Meetings attendance

No.	Name	Meeting attended	Meetings absent
1.	Dr. Parmain ole Narikae – Chairman	9 out of 9	0
2.	Mr. Daniel M. Mutua - Member / Alt. CS /NT	9 out of 9	0
3.	Mr. Gabriel K. Njenga - Member	8 out of 9	1
4.	Ms. Jacqueline L. Oyuyo - Member	7 out of 8	1
5	Mrs. Kellen E. Kariuki, MBS - CEO	9 out of 9	0

Audit and Risk Committee

This committee reviews the scope and effectiveness of internal controls and management systems which guide and monitor financial and non-financial risks. It monitors the Authority's compliance with the code of conduct and ethics. It was responsible for setting up of the Internal Audit function, and will going forward receive internal audit reports, review independence, objectivity and effectiveness.

The current members are:

Ms. Jacqueline L. Oyuyo	Chair
Mr. Daniel M. Mutua	Member / Alt.CS /NT
Mr. Gabriel K. Njenga	Member
Dr. Parmain ole Narikae	Member

Audit and Risk Committee Meeting attendance

No.	Name	Meeting attended	Meetings absent
1.	Ms Jacqueline L. Oyuyo - Chair	6 out of 6	1
2.	Mr Daniel M. Mutua - Member / Alt. CS /NT	6 out of 7	1
3.	Mr Gabriel K. Njenga – Member	7 out of 7	0
4.	Dr. Parmain ole Narikae - Member	6 out of 7	1

Technical and Investment Committee

The primary responsibility of the Technical and Investment Committee is to advise the Board on pertinent issues regarding the realization of the Authority's core mandate. The Committee advises the Board on the level of compliance with the provisions of the Unclaimed Financial Assets Act, 2011 and also advise the Board on proper management of records relating to unclaimed financial assets, including the establishment and maintenance of a reliable unclaimed financial assets database.

The current members are:

Mr. Gabriel K. Njenga	Chairman
Dr. Parmain ole Narikae	Member
Mr. Daniel M. Mutua	Member / Alt. CS /NT
Mrs. Kellen E. Kariuki, MBS	CEO
Ms. Jacqueline L. Oyuyo	Member

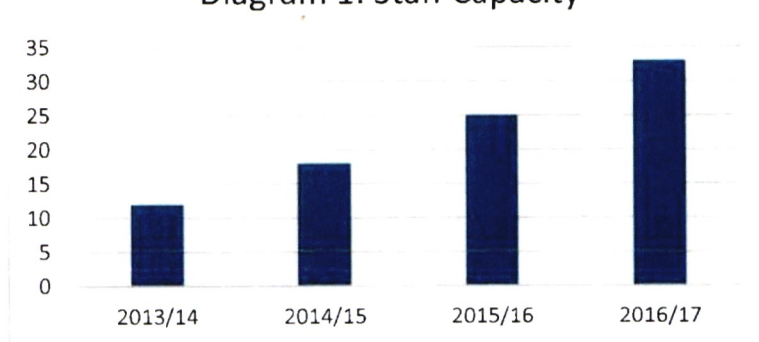
Technical and Investment Committee Meeting attendance

No.	Name	Meetings attended	Meetings absent
1.	Mr. Gabriel K. Njenga – Chairman	4 out of 4	0
2.	Dr. Parmain ole Narikae - Member	4 out of 4	0
3.	Mr. Daniel M. Mutua - Member / Alt. CS /NT	3 out of 4	1
4.	Ms. Jacqueline L. Oyuyo - Member	2 out of 3	1
5	Mrs. Kellen E. Kariuki, MBS - CEO	4 out of 4	0

Operational and financial performance

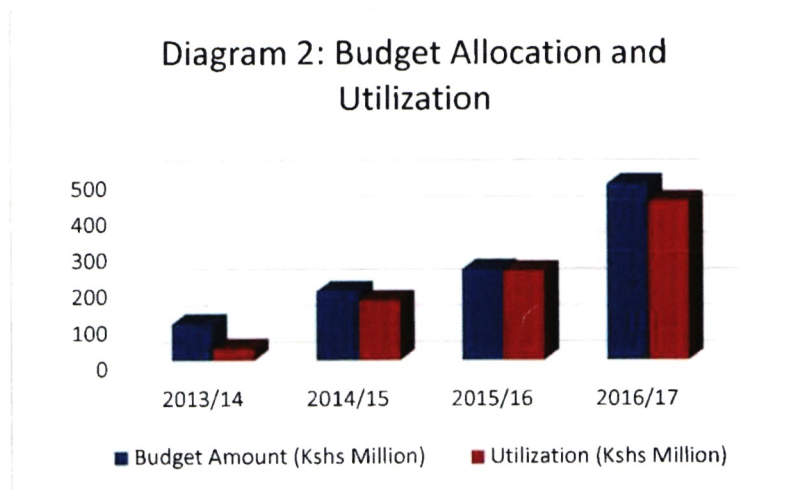
The Authority's operational and financial performance shows a growth in the level of operations and staffing from inception to date. This is exhibited by the staff population that has grown from twelve (12) staff members in FY 2013/14 to the current thirty-three (33) staff members as shown below. It should be pointed out that the staff capacity currently in place is still lower than the approved staff capacity of thirty nine (39); with the added need to enhance the staff capacity so as to enable the Authority meet its obligations effectively.

Diagram 1: Staff Capacity



With regard to the approved budget and utilization levels, this has grown from an approved budget of Kshs 100 Million in FY 2013/14 to the current Kshs 484.2 Million. Comparatively, for utilization levels, apart from the FY 2013/14 when utilization was lower than 50% of the approved budget, the Authority has consistently absorbed more than 90% of the approved budget. The approved budget amounts and utilization levels are as shown below:

Diagram 2: Budget Allocation and Utilization



It is worth pointing out that in FY 2016/17, as a historical moment, management got approval from the Board, to utilize Kshs 257.4 Million from the Trust Fund income so as to supplement the Kshs. 170 Million and Kshs 50 Million that had been allocated by Exchequer as recurrent and capital grants respectively.

Key projects and investment decisions the Authority is planning/implementing

The Authority implemented major projects in line with its strategic plan during the year under review. The main project being implementation of the Enterprise Resource Planning (ERP) System that is part of the Authority's grand plan to implement an Integrated Financial and Operational System. As at the end of the financial year, the ERP system was being finalized with a target to have administrative, financial, procurement and human resource systems fully integrated so as to enhance information management and efficiency in operations reporting. It is also expected that the Unclaimed Financial Assets System, whose procurement began during this financial year will be implemented in the coming financial year.

The second major project is the finalization and movement of staff to 3rd floor office space thus greatly enhancing the available office space and reducing the crowding that was otherwise being witnessed when only 2nd floor space was being utilized. This additional office space has greatly improved the work environment, which not only enhances staff morale but also their ability and convenience in effectively serving clients and other obligations.

Finally, the Authority initiated and is at the final stage of implementing the staff car and house mortgage schemes. The two (2) once implemented will enhance staff mobility and motivation and also improve accommodation security not only for staff but their families.

Compliance with statutory requirements

The Authority has continued to discharge its mandate within the law. Compliance and re-unification efforts, including policies developed have been carried out as provided by the Unclaimed Financial Assets Act and Regulations.

In addition, procurement is undertaken in abidance to the Public Procurement and Asset Disposal Act, 2015. Management of the human resource capacity has also been undertaken in line with the approved Human Resource policy, and in adherence to the requirements laid out in employment and labour laws and other statutory requirements and government circulars.

To enhance Legal Compliance by the Authority, a Legal Audit of the Unclaimed Financial Assets Act, and the Authority as a whole was also finalized within the year under review and recommendation of the report will be considered in developing future policy and strategic plan changes within the unclaimed assets management regime.

Material arrears in statutory/financial obligations

The Authority does not have any obligations in its books of account which are not funded by the available resources. This is due to the prudent nature that budget management and control has been undertaken. In addition, there are no arrears in statutory and other financial obligations as at the end of the year under review.

Corporate Social Responsibility Statement/Sustainability Reporting

The Authority's mission entails reuniting financial assets with rightful owners to ensure social prosperity and economic development. This is a vital social role that will be enhanced not only through re-uniting financial assets with rightful owners, but also putting in place social responsibility initiatives within the available resource constraints.

To date, the following initiatives have been put in place:

a. **Job internship/attachment for fresh University graduates**

The Board of Directors in recognizing the vital role that job placement plays in our society approved the provision of an allowance to staff engaged on industrial attachment. This not only enables the students who are engaged cater for their transport but also other basic needs.

During financial year 2016/17, the Authority provided internship opportunities to ten (10) fresh graduates from local universities so as to enable them gain work place environment exposure.

b. **Affirmative action for persons with disabilities**

The Authority recognizes the need for inclusivity and fair treatment of persons with disabilities. Towards this end, the Authority has continued to encourage maintenance of physical facilities that take care of the special needs of the physically challenged. The Authority also exceeded procurement ratio recommended for special interest groups.

c. **Participation in the Boot Cancer Challenge**

The Authority sponsored and participated in the annual Boot Cancer challenge organized by Outburst Limited. The event offers an opportunity for showing support to the fight against cancer, appreciating the survivors, recognizing the dangers posed, saluting the care givers and generally keeping hope alive in the fight against cancer.

The Directors submit their report together with the audited financial statements for the year ended 30 June 2017 which show the state of affairs of the Unclaimed Financial Assets Authority (UFAA / the "Authority").

Principal activities

The principal activities of the Authority are to receive, safeguard and reunite unclaimed financial assets with rightful owners/beneficiaries.

The results of the Authority for the year ended June 30, 2017 are set out on page 22.

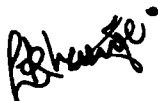
Directors

The members of the Board of Directors who served during the year are shown on page 5-7.

Auditors

The Auditor General is responsible for the statutory audit of the Unclaimed Financial Assets Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. PricewaterhouseCoopers, Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Unclaimed Financial Assets Authority for the year/period ended June 30, 2017 in accordance with section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



Ms Christine Mangwana

.....
Head of Legal Services (Ag)

Date: 2 November 2017

Section 81 of the Public Finance Management Act, 2012, Section 14 of the State Corporations Act, and Section 46 of the Unclaimed Financial Assets Act, 2011, requires the Directors to prepare financial statements in respect of the Unclaimed Financial Assets Authority (the "Authority"), which give a true and fair view of the financial position of the Authority at the end of the financial year and its financial performance for the year then ended. The Directors are responsible for ensuring that the Authority keeps proper accounting records that are sufficient to show and explain the transactions of the Authority; disclose with reasonable accuracy at any time the financial position of the Authority; and that enables them to prepare financial statements of the Authority that comply with prescribed financial reporting standards and in the manner required by Section 46 of the Unclaimed Financial Assets Act, Section 81 of the Public Finance Management Act, Revised 2015 and Section 14 of the State Corporations Act. They are also responsible for safeguarding the assets of the Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors accept responsibility for the presentation and preparation of financial statements of the Authority in accordance with International Public Sector Accounting Standards and in the manner required by Section 46 of the Unclaimed Financial Assets Act, Section 81 of the Public Finance Management Act, Revised 2015 and Section 14 of the State Corporations Act. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the Directors have assessed the Authority's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

The Authority's financial statements were approved by the Board on 2 November 2017 and signed on its behalf by:



Joseph K. Kigen
Chairman, Board of Directors



Kellen E. Kariuki, MBS
CEO

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON UNCLAIMED FINANCIAL ASSETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Unclaimed Financial Assets Authority set out on pages 22 to 43, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net reserves, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PriceWaterHouse Coopers, 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, the financial statements present fairly, in all material respects the financial position of Unclaimed Financial Assets Authority as at 30 June, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with Public Sector Accounting Standards (accrual basis) and comply with the Unclaimed Financial Assets Act, No 40 of 2011.

Confirmation of Lawfulness and Effectiveness on use of Public Money

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

Basis of Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Unclaimed Financial Assets Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Unclaimed Financial Assets Authority for the year ended 30 June 2017

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

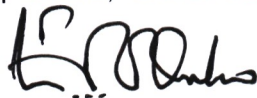
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. 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 Fund to cease to continue to sustain its services.
- 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

23 January 2018

Statement of financial performance

		Year ended 30 June	
	Notes	2017 Shs '000	2016 Shs '000
Revenue from non-exchange transactions			
Government grants - recurrent		170,000	170,000
Government grants – capital funding		50,000	50,000
Transfer from Trust Fund	4	230,000	-
Revenue from exchange transactions			
Other income	5	-	168
Finance income	6	3,970	2,117
Total revenue		453,970	222,285
Operating expenses			
Staff costs	7	140,753	111,385
Board expenses	8	7,150	5,767
Administrative expenses	9	122,684	72,271
Depreciation	13	20,990	20,302
Total operating expenses		291,577	209,725
Surplus for the year		162,393	12,560

The notes on pages 27 to 43 are an integral part of these financial statements.

Statement of financial position

	Notes	As at 30 June	
		2017	2016
		Shs '000	Shs '000
ASSETS			
Current assets			
Cash and cash equivalents	10	127,153	73,350
Receivables and prepayments	11	156,697	10,004
Inventories	12	2,125	1,188
		285,975	84,542
Non-current assets			
Motor vehicles and equipment	13	72,704	63,034
Total assets		358,679	147,576
Current liabilities			
Payables, accruals and provisions	14	75,883	27,173
Net reserves		282,796	120,403
Total net reserves and liabilities		358,679	147,576

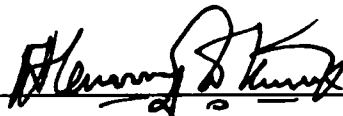
The notes on pages 27 to 43 are an integral part of these financial statements.

The financial statements on pages 22 to 43 were approved for issue by the Board of Directors and signed on its behalf by:



Chief Executive Officer
 FCPA Kellen E. Kariuki, MBS

Date... 2 November 2017



Manager Finance & Accounting
 Henry T. Nyegenye
 ICPAK Member Number: 5413

Date... 2 November 2017



Chairman of the Board
 Joseph K. Kigen

Date... 2 November 2017

Statement of changes in net reserves

	Year ended 30 June	
	2017 Shs '000	2016 Shs '000
Accumulated surplus		
At start of the year	120,403	107,843
Surplus for the year	162,393	12,560
	<hr/>	<hr/>
At end of the year	282,796	120,403
	<hr/>	<hr/>

The notes on pages 27 to 43 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 30 June 2017 Shs'000	Period ended 30 June 2016 Shs'000
Cash flows from operating activities			
Surplus		162,393	12,560
Adjustment for: Depreciation	13	20,990	20,302
Operating surplus before changes in working capital		183,383	32,862
Increase in receivables and prepayments		(146,693)	(4,294)
Increase in inventories		(937)	(299)
Increase/decrease in payables, accruals and provisions		48,710	(5,654)
Net cash from operating activities		84,463	22,615
Purchase of motor vehicles and equipment	13	(30,660)	(11,463)
Net cash used in investing activities		(30,660)	(11,463)
Increase in cash and cash equivalents		53,803	11,152
Cash and cash equivalents at start of year		73,350	62,198
Cash and cash equivalents at end of year		127,153	73,350

The notes on pages 27 to 43 are an integral part of these financial statements.

Statement of comparison of budget and actual cash amounts

Item	Approved budget 2016-17 Shs '000	Adjustments Shs '000	Final budget FY 2016-17 Shs '000	Actual FY 2016-17 Shs '000	Performance difference FY 2016-17 Shs '000
Revenue					
Government grants	220,000	-	220,000	220,000	-
Carry forward from 2015/2016	4,919	-	4,919	4,919	-
Finance income	1,800	-	1,800	3,960	2,160
Trust fund income	257,447	(27,447)	230,000	78,000	(152,000)
Total income	484,166	(27,447)	456,719	306,879	(149,840)
Expenses					
Compensation of employees	154,180	-	154,180	129,892	(24,288)
Goods and services	142,220	(500)	141,720	121,883	(19,837)
Rent paid	18,500	-	18,500	14,208	(4,292)
Capital expenditure	169,266	500	169,766	168,586	(1,180)
Total expenditure	484,166	-	484,166	434,569	(49,597)
Deficit for the period			(27,447)	(127,690)	(100,243)

A reconciliation of the budget analysis and the financial statements is presented under note 17.

The notes on pages 27 to 43 are an integral part of these financial statements.

Notes

1 Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Shs'000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Authority

Amendment to IPSAS 15, 'Financial Instruments: Disclosure and Presentation' which was superseded by IPSAS 28 and IPSAS 30. The standard establishes principles for presenting financial instruments as liabilities or as net assets/equity and for offsetting financial assets and financial liabilities. IPSAS 29 deals with the measurement of financial instruments and IPSAS 30 deals with the disclosures relating to financial instruments. It also deals with offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Authority's financial statements.

(ii) New standards and interpretations not yet adopted

IPSAS 34 'Separate Financial Statements'. The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements for separate financial statements in IPSAS 6. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 35, 'consolidated financial statements'. The standard supersedes the requirements in IPSAS 6 regarding consolidated financial statements. IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. The definition of control focuses on an entity's ability to influence the nature and amount of benefits through its power over another entity. This new definition of control may impact previous assessments of control, and therefore whether certain entities should be consolidated. IPSAS 35 also introduces the concept of "investment entities," which may be applicable to some sovereign wealth funds. Generally, an investment entity measures its investments in controlled entities at fair value through surplus or deficit. After thorough consultation, the IPSASB decided, for public sector specific reasons, that an entity which controls an investment entity should retain this method of accounting for an investment entity's investments in its consolidated financial statements, regardless of whether it is itself an investment entity. In contrast with IPSAS 6, IPSAS 35 no longer permits an exemption from consolidation for temporarily controlled entities. Consistent with the IPSASB's policy of reducing unnecessary differences between IPSASs and Government Finance Statistics reporting guidelines, the IPSASB has aligned the principles in IPSAS 35 with the Government Finance Statistics Manual 2014 (pre-publication draft) where feasible. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 36 'Investments in Associates and Joint Ventures' explains the application of the equity method of accounting, which is used to account for investments in associates and joint ventures. The requirements are very similar to the current guidance in IPSAS 7. Because equity accounting must now be used when accounting for joint ventures, the title of the standard now also refers to joint ventures. In contrast with IPSAS 7, IPSAS 36 does not permit a different accounting treatment for temporary investments. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

Notes (continued)

1 Statement of compliance and basis of preparation (continued)

IPSAS 37 'Joint Arrangements'. The standard establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements. Joint arrangements are classified as either joint operations or joint ventures. In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement. These classifications differ from IPSAS 8, which referred to three types of arrangements (jointly controlled entities, jointly controlled operations, and jointly controlled assets). IPSAS 37 requires that an entity account for its interest in a joint operation by recognizing its share of the assets, liabilities, revenue, and expenses of the joint arrangement. It also requires that joint ventures be accounted for using the equity method. Previously, IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 38 'Disclosure of Interests in other Entities'. The standard brings together the disclosures previously included in IPSASs 6–8. It also introduces new disclosure requirements, including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 39 'Employee benefits'. This will replace IPSAS 25, Employee Benefits, on January 1, 2018, with earlier adoption encouraged.

This limited-scope project was part of the IPSASB's strategy to maintain its existing standards. IPSAS 39 reflects amendments made by the International Accounting Standards Board to its equivalent standard, International Accounting Standard (IAS) 19, Employee Benefits, up to December 2015. The main differences between IPSAS 39 and IPSAS 25 are:

- Removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach");
- Introduction of the net interest approach for defined benefit plans;
- Amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;
- Simplification of the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service; and
- Removal of the requirements for Composite Social Security Programs.

IPSAS 40 'Public Sector Combinations'. This recognizes two types of public sector combinations: amalgamations and acquisitions. By contrast, International Financial Reporting Standards, used by private sector entities, treat all combinations as acquisitions, which requires obtaining fair value information. Amalgamations, which are much more common in the public sector, do not require this information. The accounting requirements for amalgamations in IPSAS 40 are based on existing information, which enables public sector entities to avoid unnecessary valuation costs, while still meeting users' needs. IPSAS 40 applies from January 1, 2019, with earlier adoption encouraged.

There are no other IPSASs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Authority.

Notes (continued)

2 Summary of significant accounting policies

(a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably.

Transfer from Trust Fund

Transfers from the Trust are recognised once approved by the Cabinet Secretary to defray costs associated with the administration of the Authority and performance of its function.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income in each period.

(b) Budget information

The annual budget is prepared on cash basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the cash basis for budgeting purposes, a reconciliation is required between the statement of comparison of budget and the budget and the financial of financial performance. This has been presented under note 16.

(c) Taxes

The Authority being a non-trading Authority is not subject to income tax. However, other taxes accruing from employees/ Directors are recovered through the payroll and remittances filled as appropriate.

As at year-end, the Authority has been in communication with National Treasury for the application of tax exemption status.

(d) Motor vehicles and equipment

All motor vehicles and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of motor vehicles and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the motor vehicles and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Motor vehicles and equipment (continued)

Depreciation on motor vehicles and equipment is recognized in the statement of financial performance on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life. The annual rates in use are:

Motor vehicles, including motor cycles	4 Years
Computers and related equipment	3 Years
Office equipment and furniture	8 Years
Fittings and fixtures	Lease term (6 years)

(e) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

(f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

For finished goods and work in progress, costs incurred in bringing each product to its present location and condition comprise cost of direct materials and labour but exclude borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

(g) Financial instruments

(i) *Financial assets*

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as loans and receivables or held-to-maturity investments as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment.

Notes (continued)

2 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Loans and receivables (continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Notes (continued)

2 Summary of significant accounting policies (continued)

(h) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

(i) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. The Authority has a *Revenue Reserve* which consists of income earned from investment of cash balances in call deposits in the current year.

(j) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

(k) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions into a separate fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

(m) Significant judgments and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions are raised and management determine an estimate based on the information available. There were no provisions made in the current reporting period.

Notes (continued)

2. Summary of significant accounting policies (continued)

(n) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June, 2017.

3. Financial risk management objectives and policies

The Authority's activities expose it to a variety of financial risks, mainly, credit risk, liquidity risk and the effects of changes in interest rates. The Authority's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the various departments of the Authority under policies approved by the Board of Directors.

(a) Risks facing the Authority

The following are the main types of risks that the Authority is exposed to in the course of executing its operations:

- Financial risks include:
 - Credit risk
 - Market risk
 - Interest risk
 - Liquidity risk
- Non-financial risks include:
 - Operational risk
 - Human resource risk
 - Legal risk
 - Reputation risk

The Authority was not exposed to foreign exchange risk at the statement of financial position date as its transactions are in Kenya Shillings.

i. Credit risk

Credit risk is the risk of financial loss to the Authority if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from bank balances and other receivable balances.

Management of the credit risk is through the choice of depository banks. The Authority's choice of depository banks is confined to top local and international banks that meet the set eligibility criteria of financial soundness. Therefore, the Authority does not consider there to be any significant exposure to credit risk.

The maximum exposure to credit risk as at 30 June was:

Notes (continued)

3. Financial risk management objectives and policies (continued)

(a) Risks facing the Authority (continued)

i. Credit risk (continued)

	2017 Shs'000	2016 Shs'000
Cash and cash equivalents (Note 10)		
Short term deposit	110,000	25,000
Cash in bank	15,550	47,434
Receivables (Note 11)		
Rent deposit	4,697	4,697
Accrued interest income	-	4,604
Trust fund receivable	152,000	-
Accrued interest income on call deposit	-	243
Bank guarantee	-	100
UAP Insurance	-	360
	282,247	82,438

There were no past due or impaired balances at 30 June 2017 (2016: nil).

ii. Market risk

Market risk is the risk of changes in market prices, in particular interest rates, affecting the Authority's income.

Interest rate risk

The Authority's interest rate risk arises from interest bearing call deposits held with commercial banks.

As at 30 June 2017, an increase/decrease of 100 basis points would have resulted in a decrease/increase in surplus of Shs. 110,000 (2016: Shs. 21,000).

iii. Liquidity risk

Liquidity risk is the risk of the Authority not being able to meet its obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation.

The Authority ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts and maintenance of deposits that are available on call.

The table below analyses the Authority's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes (continued)

3. Financial risk management objectives and policies (continued)

(a) Risks facing the Authority (continued)

iii. Liquidity risk (continued)

	On demand Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Total Shs'000
At 30 June 2017					
Payables, accruals and provisions	75,883	-	-	-	75,883
At 30 June 2016					
Payables, accruals and provisions	27,173	-	-	-	27,173

(b) Fair value of financial instruments

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits and receivable balances approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Authority uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Techniques which use inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes (continued)

	2017 Shs '000	2016 Shs '000
4 Transfer from the Trust Fund		
Amounts transferred	78,000	-
Transfer receivable	152,000	-
	<u>230,000</u>	<u>-</u>

The National Treasury approved utilization of Kshs 185 Million on capital and recurrent expenses, and also opening of the Car and House mortgage scheme that was budgeted at Kshs 45 Million in FY 2016/17, thus making for a total of Kshs 230 Million approved transfer by National Treasury. However, the Authority received approval from the Board of Directors to utilize Kshs 257.4 Million from the Trust Fund Income on its operations, in the budget for FY 2016/17. The balance of Kshs 27.4 Million is yet to be approved by the National Treasury.

	2017 Shs '000	2016 Shs '000
5 Other Income		
Sale of tender documents	-	10
Surcharge of Fine Tops Enterprises Limited	-	158
	<u>-</u>	<u>168</u>
6 Finance income		
Interest income on call deposit	<u>3,970</u>	<u>2,117</u>

The Authority invests funds that are not required for immediate use in call deposit at Kenya Commercial Bank.

	2017 Shs '000	2016 Shs '000
7 Staff costs		
Salaries and allowances	120,269	97,878
Staff gratuity	20,484	13,507
	<u>140,753</u>	<u>111,385</u>
8 Board expenses		
Honoraria and sitting allowances	6,924	5,703
Insurance	226	64
	<u>7,150</u>	<u>5,767</u>

Notes (continued)

	2017	2016
	Shs '000	Shs '000
9 Administrative expenses		
Rent	18,812	14,318
Consultancy expenses	20,059	7,088
Contracted technical services	3,320	535
Advertising	5,567	6,988
Conferences and stakeholders engagement	10,315	2,012
Workshops and training expenses	3,543	2,881
Tuition fees	1,471	1,199
Other capacity building costs	14,180	13,081
Domestic and foreign travel expenses	13,071	4,616
Audit fee	2,529	2,350
Catering services	2,671	1,246
General office supplies (stationery)	1,297	466
Supply of computer accessories	1,952	691
Sanitary & cleaning materials	23	183
Telephone expenses	2,035	2,029
Internet connectivity	1,328	209
Motor vehicle insurance	1,090	753
Staff medical insurance	8,400	7,024
Electricity	1,568	634
Publishing and printing	4,750	1,168
General expenses	470	120
Contracted cleaning and security services	444	676
Newspapers subscriptions	665	409
Fuel and lubricants	334	301
Repairs and maintenance	457	370
Employee welfare	1,150	238
Membership to professional bodies	546	190
Bank charges	147	140
Postal services	340	194
Water and sewerage	150	77
Education and library supplies		85
	122,684	72,271

Notes (continued)

	2017 Shs'000	2016 Shs'000
10 Cash and cash equivalents		
Short term deposit	110,000	25,000
Cash in bank	15,550	47,434
Standing/temporary imprest	1,600	531
Cash on hand	3	385
	<hr/>	<hr/>
	127,153	73,350
	<hr/>	<hr/>
11 Receivables and prepayments		
Trust fund receivable	152,000	-
Prepaid rent	4,697	4,697
Accrued interest income on call deposit	-	4,604
Bank guarantee	-	243
UAP Insurance	-	100
	-	360
	<hr/>	<hr/>
	156,697	10,004
	<hr/>	<hr/>
12 Inventories		
Office stationery	1,145	890
ICT consumables	980	298
	<hr/>	<hr/>
	2,125	1,188
	<hr/>	<hr/>

Notes (continued)

13 Motor vehicles and equipment

Year ended 30 June 2016

Cost	Motor vehicles Shs'000	Computers and printers Shs'000	Fixtures and fittings Shs'000	Furniture Shs'000	Total Shs'000
At start of year	16,300	11,258	52,809	10,211	90,578
Additions	-	1,974	7,944	1,545	11,463
At end of year	16,300	13,232	60,753	11,756	102,041
Accumulated depreciation					
At start of year	4,223	3,783	9,882	817	18,705
Charge for the year	4,075	4,367	10,390	1,470	20,302
At end of year	8,298	8,150	20,272	2,287	39,007
Net Book Value at end of year	8,002	5,082	40,481	9,469	63,034

Notes (continued)

13 Motor vehicles and equipment (continued)

Year ended 30 June 2017	Motor vehicles Shs'000	Computers and printers Shs'000	Fixtures and fittings Shs'000	Furniture Shs'000	Total Shs'000
Cost					
At start of year	16,300	13,232	60,753	11,756	102,041
Additions	-	2,325	25,400	2,935	30,660
At end of year	16,300	15,557	86,153	14,691	132,701
Accumulated depreciation					
At start of year	8,298	8,150	20,272	2,287	39,007
Charge for the year	4,075	4,330	10,831	1,754	20,990
At end of year	12,373	12,480	31,103	4,041	59,997
Net Book Value at end of year	3,927	3,077	55,050	10,650	72,704

Notes (continued)

	2017 Shs '000	2016 Shs '000
14 Payables, accruals and provisions		
Other payables	55,399	12,505
Staff gratuity	20,484	14,668
	75,883	27,173
	75,883	27,173

15 Related party transactions

In the course of its operations, the Authority enters into transactions with related parties, which include the Government of Kenya through the National Treasury (the parent ministry of the Authority).

The grant provided by the Government of Kenya to fund the operations of the Authority is disclosed in the Statement of financial performance.

The National Treasury extended secondment terms for seven (7) staff. The terms of the seconded staff ended on 31 October 2016. There are currently no staff on secondment.

Key management personnel

The key management personnel, as defined by IPSAS 20 Related Party Disclosures, are the members of the Authority, who together constitute the governing body of the Authority.

Board expenses are disclosed in Note 8.

Unclaimed Assets Trust Fund (UATF)

The Authority and its Chief Executive Officer act as Trustee and Managing Trustee, respectively, of the Unclaimed Assets Trust Fund (the "Fund") which was effectively created with the gazette of the Unclaimed Financial Assets Act, No. 40 of 2011. Expenses of the Fund are borne by the Authority. Separate financial statements have been prepared for the Fund.

16 Commitments

Operating lease commitments

The Authority leases its premise under an operating lease. The lease term is for 6 years. The future lease payments due to the rental premise is as follows:

	2017 Shs'000	2016 Shs'000
Falling due within one year	13,734	12,956
Falling due between one and five years	23,340	37,074
	37,074	50,030
	37,074	50,030

Notes (continued)

17 Reconciliation of the budget analysis statement and the financial performance statement

	Shs'000	Shs'000
Income as per budget and actual		306,889
Less: Carry forward from 2015/16	(4,919)	
Add: Trust fund income receivable	152,000	147,081
Income as per Income Statement		453,970
Expenditure as per Budget Statement		437,114
Less: Capital expenditure	(168,586)	
Add:		
Depreciation charge	20,990	
Rent expenses paid in FY 2015/16	2,059	(145,537)
Expenditure as per Income Statement		291,577

18 Taxation

The directors have made an application for tax exemption to the Kenya Revenue Authority in view of the nature of the Authority's activities. Consequently, no provision for taxes has been made in these financial statements.

19 Employees

The number of employees at the end of the year was 33 (2016:17)

20 Incorporation

The Authority is registered in Kenya under the Unclaimed Financial Assets Act No. 40 of 2011 (the 'Act').

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