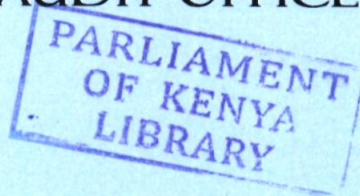




REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
IDB CAPITAL LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**



IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015

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KEY ENTITY INFORMATION

Background information

IDB Capital Limited (the "Institution" or "IDB") was incorporated as the Industrial Development Bank Limited under the company's Act on 12th January 1973 as a company limited by shares. The company changed its name to IDB Capital Limited on 15th 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 Re-Insurance Corporation, National Bank of Kenya and The Kenya National Assurance Company (in liquidation). At cabinet level, IDB is represented by the Cabinet Secretary for the National Treasury as the principal shareholder.

Principal activities

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

Board of directors

The directors who served the entity during the year were as follows:
Peterson Mwai - Chairman (Appointed on 1st November 2012)
Timothy Tiampati - Ag. Managing Director (Appointed on 1st September 2013)
Muzanzu Daniel Baya - Independent Director (Appointed on 15th August 2011, retired on 14th August 2014)
Cabinet Secretary, The National Treasury (Represented by Felister Kivisi)
Permanent Secretary, Ministry of Industrialisation & Enterprise Development (Represented by J. Mwendwa)
National Bank of Kenya Limited (Represented by Ahmed Munir)
Industrial and Commercial Development Corporation (Represented by Mbatha Mbithi)
Kenya National Assurance Company (In liquidation) (Represented by B Gachegu)
Kenya Reinsurance Corporation Limited (Represented by J. Mwarania)
John Paul K. Kenduiywa -Independent Director (Appointed on 17th April, 2015)
Michael M. Kiswili -Independent Director (Appointed on 17th April, 2015)

Company secretary

Rebecca Akoth Kinyanjui (Mrs)
P.O. Box 44036, 00100
Nairobi,
Kenya

Registered office & headquarters

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

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

RSM Ashvir
Certified Public Accountants
1st Floor, Pacts Centre
Slip road, off Waiyaki way, Westlands
P.O. Box 349, 00606
Nairobi,
Kenya

KEY ENTITY INFORMATION (CONTINUED)

On behalf of

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

Principal bankers

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

Standard Chartered Bank Kenya Limited
P.O. Box 30003, 00100
Nairobi,
Kenya.

Legal advisors

Adera and Company Advocates
P.O. Box 54556, 00200
Nairobi
Kenya.

Ochieng', Onyango, Kibet and Ohaga Advocates
P.O. Box 43170, 00100
Nairobi,
Kenya.

Sichangi Advocates
P.O. Box 33223, 00600
Nairobi,
Kenya.

Simba & Simba Advocates
P.O. Box 10312, 00100
Nairobi,
Kenya.

Kiarie, Kariuki and Associates Advocates
P.O. Box 13808, 00100
Nairobi,
Kenya.

Nyachae & Ashitiva Advocates
P.O. Box 13808, 00100
Nairobi,
Kenya.

THE BOARD OF DIRECTORS



Mr. Peterson Mwai
Munene Chairman

Mr. Munene is the Chairman of the Board. He was appointed as such on 1st November 2012 having served as a Director of IDB Capital Limited from March 2011. He has held Management positions in Royal Insurance Company, Aon Minet Insurance Broker Limited, Jardine Alexander Forbes Insurance Brokers Limited and Kabage Mwirigi Insurance Brokers Limited. He is the Director- Operations of Plan & Place Insurance Brokers Limited. He holds a Bachelor of Commerce Degree from the University of Nairobi and is an Associate of the Chartered Insurance Institute (ACII).



Mrs. Felister S. Kivisi
Representing the
National Treasury

Mrs. Kivisi is the Alternate Director to Cabinet Secretary, The National Treasury and has a wealth of experience having worked in the National Treasury from 1994 to date. She serves as Senior Assistant Director in The National Treasury, Debt Management Department. She holds a Bachelor of Arts degree from the University of Nairobi (1990) and a Master of Arts Degree in International Relations from the University of Leeds (1992). She is currently undertaking PHD studies in International Relations.



Mr. Muni Sheikh Ahmed
Representing National
Bank of Kenya

Mr. Muni is the Chief Executive Officer and Managing Director of the National Bank of Kenya. Prior to joining National Bank, he had gained 16 years of experience working in senior positions in commercial banking across multiple geographies including: Kenya, UK and South Africa. Mr. Muni holds a Master of Business Administration (MBA) and Bachelor of Commerce (Hons.) degrees from the University of Nairobi.



Mr. Jadhav Mwarania
Representing Kenya
Re-Insurance Corporation

Mr. Mwarania is the Managing Director of Kenya Re-Insurance Corporation and has over 20 years' experience in the Corporation. He holds a Bachelor of Commerce (Hons.) and Master of Business Administration (MBA) degrees from the University of Nairobi. He is a Fellow of the Chartered Insurance Institute of London (FCII), and the Insurance Institute of Kenya (IIK). Mr. Mwarania is a Chartered Insurer (CI) of the Insurance Institute of London.



Ms. Mbithi Mbithi
Representing ICDC

Ms. Mbithi is the Alternate Director to Managing Director, ICDC (Industrial and Commercial Development Corporation). She serves as the Chief Manager Operations at ICDC, a position she has held since September 2009. Ms. Mbithi has a solid background in Finance and Banking having worked in middle and senior management level positions in five commercial banks. She holds a Masters of Business Administration degree in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University.



Mr. John Mwendwa
Representing MOIED

Mr. Mwendwa is the Alternate Director to Cabinet Secretary, Ministry of Industrialization and Enterprise Development (MOIED). He is the Chief Financial Officer /Personal Assistant to the Cabinet Secretary MOIED. 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. Mr. Mwendwa holds a Master of Commerce degree in Finance, Bachelor of Commerce in Finance.



Mrs. Bernice Gachegu
Representing KNAC

Mrs. 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.



Mr. Michael M. Kiswili
Independent Director

Mr. Kiswili was appointed to the Board of IDB Capital Limited in April, 2015. 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 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.



Timothy K. Tiampati
Ag. Managing Director

Mr. Tiampati is the Acting Managing Director since September 2013. 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's of Science (Economics) from Odessa Institute of National Economics, former U.S.S.R. He is the chairman Board of Directors Mt. Kenya Bottlers Limited and also is a Director of Almasi Beverages Limited.



Mrs. Rebecca A.
Kinyanjui
Chief Legal Officer
Company Secretary

Mrs. Kinyanjui joined IDB Capital Limited 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).

MANAGEMENT TEAM



Timothy K. Tiampati
Ag. Managing Director

Mr. Tiampati is the Acting Managing Director in-charge of the overall management of the Institution. He joined IDB Capital as a Project Officer in April 1985 and rose through the ranks to be the Chief of Credit until he was appointed as the Acting Managing Director in September 2013. He previously worked as an Economist/Statistician at Kerio Valley Development Authority. He holds a Master's of Science (Economics) from Odessa Institute of National Economics, Russia. He is the Chairman Board of Directors Mt. Kenya Bottlers Limited and also is a Director of Almasi Beverages Limited.



Rebecca A. Kinyanjui
Chief Legal
Officer Company Secretary

Mrs. Kinyanjui is the Chief Legal Officer/Company Secretary and is the legal advisor to the Institution and the Secretary to the Board of Directors. She joined IDB Capital Limited 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).



Haggai William
Information, Communication
and Technology Manager

Mr. Haggai is in-charge of overall ICT operations and oversees strategy and business development functions. He has over 15 years' experience in ICT management gained from working at various levels. He is a holder of a Bachelor of Commerce Degree (Management Science) from the University of Nairobi; he is a qualified Quality Management Systems Auditor and a member of the Institute of Directors of Kenya.



Priscilla N. Njuguna
Legal Affairs Manager

Mrs. 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).



Anne N. Gitau
Manager Finance and Accounts

Mrs. 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.



Judith A. Omachar
Ag. Chief of Credit

Mrs. Omachar has been the Acting Chief of Credit since September 2013 and 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).

CHAIRMAN'S STATEMENT

I am delighted to present to you the Annual Report and Audited Financial Statements of IDB Capital Limited (the "Institution" or "IDB") for the year ended June 30, 2015.

OVERVIEW OF OPERATING ENVIRONMENT

The global economic performance remained positive in 2014 with real Gross Domestic Product (GDP) expanding by 3.3 per cent, a similar rate to 2013. Various major economies and regions however, reported divergent levels of economic growth supported by a fall in crude oil prices, lower inflation rates and increased internal demands in individual economies. World trade expanded by 3.0 per cent in 2014 compared to a 3.3 per cent growth recorded in 2013. This sluggish growth reflects persistent weak import demand from advanced economies, slower expansion of global supply chains and shifts in demand towards less import intensive products.

Growth in Sub-Sahara Africa rose from 4.4 per cent reported in 2013 to 5.1 per cent in 2014. The highest growths in 2014 were recorded in West African Economic and Monetary Union and the East African Community. Real Gross Domestic Product growth for East African Community increased to 5.8 per cent in 2014 compared to a 5.3 per cent growth in 2013. Inflation dropped to 5.6 per cent in 2014 from 6.4 per cent in 2013 mainly on account of reduced food and fuel prices.

Kenya's economy now ranks 9th largest in Africa and 4th largest in Sub-Saharan Africa, and is now considered a "lower middle income" economy. The new ranking implies that the basic foundation for economic transformation is now in place. The economy has continued to expand in a stable economic environment. Growth rate rose to 5.3 per cent in 2014 in spite of the economy being vulnerable to weather-related shocks and deterioration of security conditions in the past year. The economy remains resilient with real GDP projected to grow by around 6.5 percent in 2015 supported by rising infrastructure investments, lower energy prices, and a dynamic private investment environment.

Credit to the manufacturing sector has picked up and foreign investor interest is growing, notably in the extractive industries. The manufacturing industry recorded a slowed growth of 3.4 per cent in 2014 compared to 5.6 per cent in 2013 despite the improved economic environment of slightly cheaper and stable electricity supply, restrained inflation and resilient domestic demand. The inflation rate was recorded at 7.03 percent in June of 2015.

DEVELOPMENT IN THE FINANCIAL SECTOR

The Financial sector continued to record remarkable milestones, sustaining the pace of progressive reforms that have made Kenya one of the most competitive and innovative financial markets in Africa.

The year saw the introduction of the Kenya Banks' Reference Rate (KBRR) and Annual Percentage Rate (APR) frameworks in July 2014, aimed at fostering a transparent credit pricing framework and enhance the transmission of monetary policy signals through lending rates. The operationalization of Credit Reference Bureaus has reduced the costs of information search and customer risk-profiling.

The financial sector recorded a growth of 8.3 per cent in 2014 compared to 8.1 per cent in 2013. The expansion of the financial services was driven by increased uptake of loans and advances, increased earnings from fees and commissions and government securities. Interest rates eased downwards while interest spread rate remained fairly high at over 10 per cent. The Central Bank Rate (CBR) remained at 8.5 per cent for the most part of the year and was reviewed in May 2015 to 10 percent so as curb the inflationary expectations and the potential pass-through of the exchange rate movements on consumer price inflation. There was also a move by the Monetary Policy Committee (MPC) which saw the KBRR reviewed from 9.13 percent to 8.54 per cent on 14th January, 2015.

REVIEW OF THE CORE BUSINESS OPERATIONS

The process of Parastatal Reform which began at the beginning of March 2014 is still on-going and mainly awaiting legislation. It is envisaged that IDB will be merged with other two Development Finance Institutions to form Kenya Development Bank. We also continue to anticipate changes in both the macro and micro environments that have a direct impact on the operations of the institution both in the short and long term. Of particular interest is resource mobilization being pursued with the National Treasury which had been put on hold pending finalization of the reform process.

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW OF THE CORE BUSINESS OPERATIONS (CONTINUED)

IDB has continued to operate in spite of the resource challenges facing the institution. During the year, the Institution sold its shares held in Almasi Beverages Limited (formerly in Mt. Kenya Bottlers) and the proceeds have provided liquidity for the organization to continue its operation as the Government completes the parastatal reform process.

We have continued to make investments in the sectors identified in our Corporate Strategic Plan although. The target sectors are envisaged to contribute significantly to economic growth as envisioned in the Kenya Vision 2030. In this financial year, we approved loans of Shs 303 million for small and medium enterprises across various sectors namely engineering and metal works, health services, manufacturing and mining and quarrying. Funding considerations were made after careful analysis of the project proposals and strong ability to service the loan facilities. The projects would similarly have a positive impact on the overall economic development of the country. In addition, the institution facilitated employment creation of a hundred and twenty five direct jobs.

FINANCIAL PERFORMANCE

The period between July 2014 and June 2015 was challenging for IDB's operations with limited lending resources and uncertain future owing to the on-going reform process. The institution was implementing Corporate Strategic Plan which was reviewed in July 2014 taking into account the current changes in the planning environment. In line with Government priorities, the revised plan focuses on our contribution to the Nation's development through Promotion of Industrial Growth, Development; Employment, Prosperity, Equity; and Value addition.

Overall as will be seen in the accounts, the institution delivered a fitting and strong performance by posting a pre-tax profit of Shs 6.1 million for the period July 2014 to June 2015 compared to a loss of Shs 18.19 million the same period previous year. The positive results have been achieved as a result of stringent cost control measures and evaluation of viable projects.

CORPORATE GOVERNANCE

The Board of Directors supports the implementation of best practice in Corporate Governance and confirms that the company has complied with rules set by the Central Bank of Kenya for the Banking industry and the requirements of the Association of Africa Development Finance Institutions (AADFI) and prudential guidelines for Development Finance Institutions (DFIs).

During the year under review, we worked closely with the State Corporations Advisory Committee (SCAC) and undertook Board evaluation as part of the compliance with requirements of good corporate governance. The Institution currently has a rating of 76% under the AADFI ratings largely because of good scores on the operation indicators. The rating is however affected by the financial performance and availability of lending resources.

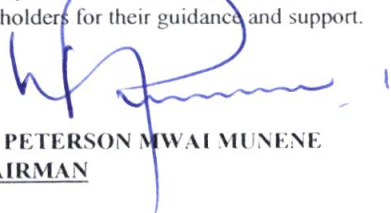
BOARD CHANGES

During the year, we welcomed John Paul K. Kenduiywa and Michael M. Kiswili to the Board as Independent Directors. The two were appointed by the Government for a period of three (3) years with effect from 17th April 2015. They bring exceptional experience from years of service in both Kenya civil service and private sectors.

PERSONAL THANKS

I would like to thank the Staff of IDB for the excellent performance achieved in the last year. I remain confident that we have the skills necessary to manage the significant opportunities and challenges that lie ahead. I thank my colleagues on the Board for their sound guidance and support during this period.

To our customers for their continued support and our shareholders whose confidence has sanctioned important strategic developments, we extend our gratitude. I also sincerely thank the Government of Kenya, regulatory authorities, other partners and stakeholders for their guidance and support.



MR. PETERSON MWAI MUNENE
CHAIRMAN

REPORT OF THE AG. MANAGING DIRECTOR

The financial year 2014/2015 was a momentous year for the Institution due to considerable changes that have been going on in the planning environment. Of particular interest are the changes envisaged under the Public Sector Reform Program. However, the impending reforms notwithstanding, the management continued to seek ways of ensuring that the institution stays afloat.

The Institution's internally generated resources were not adequate to give a return that would enable IDB execute its mandate effectively and ensure profitability into the future. This notwithstanding we have endeavored to keep alive all other pursuits with respect to resource mobilization including request for budget allocation and guarantee support from the Government. Additionally, we have refocused our strategic direction to focus on our core business and put in place many of the strategies for continued growth in the next financial year and beyond.

FINANCIAL PERFORMANCE

I am delighted to report that the Institution recorded a profit before tax of Shs 6.1 million compared to a loss of Shs 18.19 million the previous year. It is notable that income growth underpinned our overall performance. As a result of competitive pricing, interest income rose to Shs 91.3 million up from Shs 82.3 million. We have also continued to explore and diversify our income streams leading to our non-interest income growing from Shs 2 million to Shs 2.2 million. The non-interest income growth is due to remarkable improvement in our appraisal process resulting to increased amount received as appraisal fees. Total income for the Institution rose to Shs 93.3 million compared to previous year's Shs 86.5 million.

To maintain the growth levels we have seen in the year, the Institution's cost base declined as evidenced by decrease in our operating expenses from Shs 104.7 million to Shs 87.2 million. Most of the costs were maintained within the budget as stringent cost control continued to be employed during the period and expenditures were strictly on a need basis and for items that added value to the institution. During the year, our loan book reduced from Shs 455.7 million recorded in June 2014 to Shs 425.9 million in 2015 due to normal loan repayments and resource constraints facing the Institution. Despite the funding challenge facing the Institution, our total non-performing advances (TNPA) as a percentage of total portfolio was good standing at 1.61% due to a prudent risk management framework that did a commendable job in controlling the quality of our loan portfolio, in addition to aggressive debt collection.

The Balance Sheet size as at June 2015 stood at Shs 847.4 million compared to Shs 840.9 million as at 30th June 2014. The net worth has similarly increased to Shs 838.8 million in June 2015 from Shs 833.6 million as at June 2014.

OUR BUSINESS FOCUS

The Institution has continued to focus on growing its revenue to cover its operating costs by carefully selecting short term and long term investment opportunities in sectors that have shown growth potential. Our Project finance, Asset Finance and working Capital remain as the most sought facilities by industrial and commercial enterprises in Kenya.

We have continued to streamline and strengthen our internal processes to ensure quality service delivery to our customers. Notably, the institution has been able to sustain its operations largely from repeat business, a sign that past customers have been satisfied by our service delivery. Additionally, our credit process has been strengthened to ensure minimum risk to investments in view of the limited lending resources. Staff in the key departments has been provided with requisite training to ensure that the quality of service is sustained and continually improved.

We have continued undertaking marketing initiatives that have led to increased enquiries for funding. We are of the view that we will continue to consider all requests for funding and viable projects shall be financed from the available resources. Where the customers' requirements exceed our capacity, we will endeavor to syndicate with other financial institutions.

REPORT OF THE AG. MANAGING DIRECTOR (CONTINUED)

Notably, the level of competition in the market is expected to increase in view of the policy interventions aimed at lowering the lending rates. We have had several loan applications that have gone through the appraisal and approval process only for the sponsors to decline the offers after securing facilities on more favorable terms from the main stream Banks. This is a challenge that we may not be able to address immediately considering that as an institution we may not be able to compete on price given our meagre resources.

STRATEGIC PLAN HIGHLIGHTS

The Institution was implementing the reviewed strategic plan focused on a short term period of two years from July 2014 to June 2016. The period is informed by the ongoing process of state corporations' reform where the timelines for implementation of the reforms are not certain.

IDB's mandate which is broadly defined as facilitating and supporting industrial development is set out to be realized through specific measures outlined in the strategic plan. The strategic plan envisages that IDB will continue to support the creation of new enterprises in the Small Medium Enterprise category and support the growth of those existing to enable them graduate into large enterprises. The Institution has also committed to support commercially viable social and commercial enterprises whose projected impact in terms of employment creation is significant. In addition, IDB will continue supporting balance of payments by offering finance to the export oriented sector.

OUR PEOPLE

We are in the service business and therefore our success to keeping our customers happy hence growing the Institution can only be achieved by attracting the right people for the right roles. During the year, in order to support IDB's growth strategy, we received an approval from the State Corporations Advisory Committee (SCAC) to hire two officers for the positions of Human Resources Officer; and Strategy and Business Development Officer which had been vacant. The previous year had seen the Institution operate at the bare minimum in terms of Human Resource due to the embargo placed on recruitment pending the finalization of the reform process.

The Institution continued to maintain and train staff through internal training and also external training. The level of employee satisfaction was revealed to be high in the satisfaction survey undertaken during the year notwithstanding the many challenges we are facing.

YEAR 2015/2016 OUTLOOK

We do anticipate changes in both the macro and micro environments that will have a direct impact on the operations of the Institution both in the short and long term. Of particular interest are the changes envisaged under the Public Sector Reform Program which are still awaiting legislation. Management will continue to do everything conceivably possible to ensure that the Institution remains operational in a manner that addresses its mandate.

I believe we have the right initiatives and strategies in place, a strong momentum and an exceptional team on Board. In the coming year, we will continue to focus on our core values and work towards continuously improving and adapting to the interests of our customers. We will continue to seek opportunities for resource mobilization and most importantly the pursuit for excellence in service delivery. We shall strive to foster closer relationships with our customer and keep them informed of all products and services on offer.

APPRECIATION

The good performance as reflected in the financial statements is a result of the combined effort of the Board, management and staff. I thank them all for their continued dedication to the Institution.

Lastly, on my own behalf and that of the entire Board, Management and staff I wish to sincerely thank our esteemed customers for their continued patronage and loyalty to the Institution. Similarly I thank all our shareholders for their continued support.

Thank you and best wishes to all.


MR. TIMOTHY K. TIAMPATI
AG. MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

The Board of Directors supports the implementation of best practice in Corporate Governance and confirms that the company has complied with corporate governance practices and has set as its benchmark, the rules set by the Central Bank of Kenya for the banking industry.

Directors

The Board comprises ten members. Six of them represent the institutions that are shareholders of the company. The conduct of the board is governed by the terms of a board Charter ensuring that its role is independent from that of management and that there is no conflict of interest affecting the duties of the directors to the company.

The board meets quarterly or more often if business so dictates. During its meetings it considers financial reports, 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 Audit Committee

This Committee meets quarterly. It reviews all areas of business risk, management accounts and the reports of the Internal and External Auditors respectively. The Audit Committee members include:

Munir S. Ahmed - (Committee Chairman)
J. Mwarania
B. Gachegu
J. Mwendwa

The Investment Committee

This Committee meets regularly to consider and approve new credit applications and the renewal of existing facilities within limits set by the board. The Investments Committee members include:

J. Mwarania - (Committee Chairman)
F. Kivisi
Mbatha Mbithi
T. Tiampati

The Human Resources Committee

This Committee meets quarterly. It is responsible for the recruitment, promotion and discipline of senior staff members, the review of HR policies and staff remuneration. The Human Resources Committee members include:

B. Gachegu - (Committee Chairman)
J. Mwendwa
F. Kivisi
T. Tiampati

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.

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 is in the process of 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.

Directors' benefits

The directors are entitled to fees and sitting allowances, the details of which have been disclosed in the financial statements.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

IDB is committed to providing high quality and appropriate financial products and services to foster sustainable and competitive industrial development. Our Corporate Social Responsibility ("CSR") initiative is dedicated to supporting community welfare and development; encouraging and supporting diversity in our workforce, and acting fairly, ethically and with integrity in everything we do. Additionally, we endeavor to ensure that all projects financed by the Institution are in compliance with the required environment regulations.

CSR IN OUR OPERATIONS

Diversity and inclusion are integral to IDB's culture and strategy. Notably, our employees come from different regions of the country and we believe this diversified workforce provides a competitive advantage in responding to the varied needs of our stakeholders and makes the institution a more interesting place in which to work.

We support human capital development in Kenya through graduate and internship opportunities. Over 90% of our senior managers were developed through a structured internal process of identification, development and retention of future leaders. Additionally, we directly and indirectly provide employment through our operations to thousands of people across the country, including our contractors, suppliers and consultants.

CSR IN OUR COMMUNITY

During the period under review, we continue conserving our environment and educating our society in matters of sustainable development by supporting various educational, sports and other institutions in the form of cash contributions and staff involvement. We joined Kenya Organization for Environmental Education in partnership with Rotary District 9212 in sponsoring the World Environment Day 2015 celebration dubbed "Promoting Sustainability through Sports". The event attracted a total of 620 participants and a total of 350 tree seedlings were planted at the City Park Hockey Stadium environs while the remaining 650 seedlings were distributed to the schools present which they had to plant back in their respective institution compounds. The seedlings were a kind donation from Serena Hotels in support of the event.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2015, which disclose the state of affairs of the company.

Principal activities

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

Results

The net profit/(loss) for the year of Shs 6,105,000 (2014: Shs (18,192,000)) has been transferred to accumulated profits.

Dividends

The directors propose a final dividend of Shs 0.29 per share (2014: Shs Nil) amounting to a total of Shs 234,742 (2014: Shs Nil).

Directorate

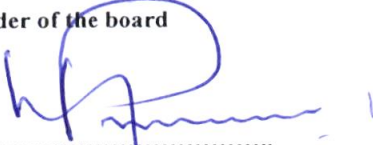
The directors who held office during the year and to the date of this report are set out on page 1.

Auditor

The Auditor-General is responsible for the statutory audit of the company's financial statement in accordance with Article 229 of the Constitution of Kenya. Section 39 (1) of the Public Audit Act 2012, which empowers the Auditor-General to nominate other auditors to carry out audit on their behalf.

RSM Ashvir, who were appointed by the Auditor General, have carried out the audit for the year ended 30 June 2015.

By order of the board


.....
Director
29/09/2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya Companies Act and Section 68 of the Public Finance Management Act, 2012, requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

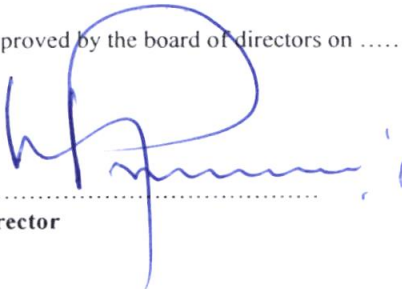
The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

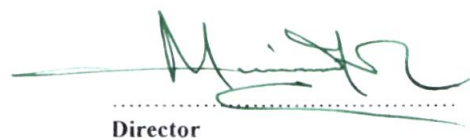
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies;
- iii) making accounting estimates and judgements that are reasonable in the circumstances;
- iv) safeguarding the assets of the entity;
- v) selecting and applying appropriate accounting policies; and
- vi) making accounting estimates and judgements that are reasonable in the circumstances.

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 as at 30th June 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Public Finance Management Act and requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on29/09/..... 2015 and signed on its behalf by:


.....
Director


.....
Director



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of IDB Capital Limited set out on pages 15 to 45, which comprise the statement of financial position as at 30 June 2015, and the statement of 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 RSM Ashvir, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

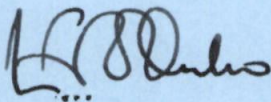
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and
- iii. The Company's statement of financial position is in agreement with the books of account.



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

Nairobi

6 November 2015

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2015 Shs '000	2014 Shs '000
Interest income	5	91,318	82,330
Non interest income	6	2,150	1,958
Other operating incomes	7	-	2,543
Total operating income		<u>93,468</u>	<u>86,831</u>
Other loss			
Net impairment loss on loan and advances	8	(1,030)	(667)
Other income	9	843	382
Total other loss		<u>(187)</u>	<u>(285)</u>
Total income		<u>93,281</u>	<u>86,546</u>
Operating expenses	Appendix 1		
Staff cost		(51,196)	(61,146)
Administrative expenses		(25,636)	(32,578)
Operating lease expenses		(6,841)	(6,659)
Depreciation and amortisation		(3,503)	(4,355)
Total operating expenses		<u>(87,176)</u>	<u>(104,738)</u>
Profit/(loss) before tax	10	<u>6,105</u>	<u>(18,192)</u>
Tax (expense)/income	11	-	-
Profit/(loss) for the year attributable to the owners of the company		<u>6,105</u>	<u>(18,192)</u>
Dividends:			
Final - proposed	12	<u>235</u>	<u>-</u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2015 Shs '000	2014 Shs '000
Profit/(loss) for the year		<u>6,105</u>	<u>(18,192)</u>
Other comprehensive income			
Gain in fair value of financial assets	17	-	68,558
Actuarial (loss)/gain on remeasurement on defined benefit assets	19	<u>(927)</u>	<u>5,822</u>
		<u>(927)</u>	<u>74,380</u>
Total comprehensive income for the year attributable to the owners of the company		<u><u>5,178</u></u>	<u><u>56,188</u></u>
Earnings per share attributable to the owners of the company			
Basic and diluted (Shs per share)	13	<u><u>0.15</u></u>	<u><u>(0.45)</u></u>

STATEMENT OF FINANCIAL POSITION AT 30TH JUNE 2015

	Note	2015 Shs '000	2014 Shs '000
ASSETS			
Current assets			
Cash and bank balances	14	15,658	4,027
Deposits with financial institutions	15	331,362	127,147
Loans and advances to customers	16	80,963	91,083
Current tax recoverable		26,870	24,207
Financial assets (unquoted)	17	-	182,726
Other assets	18	10,254	6,939
		<u>465,107</u>	<u>436,129</u>
Non-current assets			
Loans and advances to customers	16	344,962	364,614
Financial assets (unquoted)	17	28,731	27,958
Defined benefit asset	19	2,874	3,419
Property, plant and equipment	20	4,573	6,785
Intangible assets	21	1,193	2,037
		<u>382,333</u>	<u>404,813</u>
Total assets		<u><u>847,440</u></u>	<u><u>840,942</u></u>
LIABILITIES			
Current liabilities			
Other liability	23	8,639	7,319
SHAREHOLDERS' FUNDS			
Share capital	24	810,020	810,020
Fair value reserve		-	180,290
Accumulated profit/(losses)		28,546	(156,687)
Proposed dividends	12	235	-
Total equity		<u>838,801</u>	<u>833,623</u>
Total liabilities and shareholders' equity		<u><u>847,440</u></u>	<u><u>840,942</u></u>

The financial statements on pages 15 to 45 were approved for issue by the board of directors on 29/09/2015 and were signed on its behalf by:

Chairman

Director

Ag. Managing Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2015

	Note	Share capital Shs '000	Fair value reserve Shs '000	Accumulated (losses)/profit Shs '000	Proposed dividends Shs '000	Total Shs '000
At 1st July 2013		810,020	111,732	(144,317)	-	777,435
Loss for the year		-	-	(18,192)	-	(18,192)
Other comprehensive income		-	68,558	5,822	-	74,380
At 30th June 2014		<u>810,020</u>	<u>180,290</u>	<u>(156,687)</u>	<u>-</u>	<u>833,623</u>
At 1st July 2014		810,020	180,290	(156,687)	-	833,623
Profit for the year		-	-	6,105	-	6,105
Other comprehensive income		-	-	(927)	-	(927)
Transfer from fair value reserve to revenue reserve		-	(180,290)	180,290	-	-
Total comprehensive income for the year		-	(180,290)	185,468	-	5,178
Transactions with owners:						
Dividends:						
- Proposed for 2015	12	-	-	(235)	235	-
At 30th June 2015		<u>810,020</u>	<u>-</u>	<u>28,546</u>	<u>235</u>	<u>838,801</u>

The fair value reserve balance relating to changes in fair value of available-for-sale financial assets was transferred to revenue reserve on disposal of shares in Almasi Beverages Limited.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2015 Shs '000	2014 Shs '000
Cash flows from operating activities			
Profit/(loss) for the year		6,105	(18,192)
Adjustments for:			
Depreciation of property, plant and equipment	20	2,659	3,117
Amortisation of intangible assets	21	844	1,238
(Gain)/loss on disposal of property, plant and equipment	9	-	(97)
Impairment of property, plant and equipment		22	83
Impairment of intangible assets		-	54
Prior year adjustment on property, plant and equipment		-	81
Exchange gain on retranslation of investments	17	(773)	(125)
Actuarial (gain)/loss on defined benefit	19	(927)	5,822
Operating profit/(loss) before changes in operating assets and liabilities		7,931	(8,019)
Changes in operating assets and liabilities			
Other assets		(3,315)	(1,672)
Defined benefit		545	(6,195)
Loans and advances to customer		29,772	(131,889)
Other liability including provision for gratuity		1,320	(3,404)
Cash generated from/(used in) operating activities		36,252	(151,179)
Dividends received		-	(2,170)
Income tax paid		(2,663)	(3,602)
Net cash generated from/(used in) operating activities		33,589	(156,951)
Cash flows from investing activities			
Proceeds from disposal of property plant and equipment		-	99
Purchase of property, plant and equipment	19	(469)	(363)
Proceeds from disposal of financial assets		182,726	-
Dividends received		-	2,170
Net cash generated from investing activities		182,257	1,906
Net increase/(decrease) in cash and cash equivalents		215,846	(155,045)
Cash and cash equivalents at start of the year		131,174	286,219
Cash and cash equivalents at end of the year	25	347,020	131,174

NOTES

1. General information

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, Kenya.

2. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these general purpose financial statements are set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Shs'000).

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. The accounting policies adopted have been consistently applied to all the years presented.

Going concern

The company recorded a net profit of Shs 6.1 million for the year ended 30 June 2015 (2014: net loss of Shs 18.19 million) and, as of that date the company had accumulated profits of Shs 28.5 million (2014: losses of Shs 156.7 million).

However, the directors have prepared the accounts on a going concern basis. This is premised on the ongoing parastatal reform program which seeks to rationalize the operations of state corporations by redefining their mandates, reorganizing their structures and addressing the resource issues.

The financial statements comprise a profit and loss account (income statement), statement of comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes.

Measurement basis

The measurement basis used is 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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Measurement basis (continued)

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 (ie as prices) or indirectly (ie 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.

b) New and revised standards

i) Adoption of new and revised standards

A number of amendments to standards and one interpretation became effective for the first time in the financial year beginning 1st July 2014 and have been adopted by the company. None of them has had an effect on the company's financial statements.

ii) New and revised standards and interpretations which have been issued but are not yet effective

The company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1st July 2014:

- IFRS 14 Regulatory Deferral Accounts (issued in January 2014, effective for annual accounting periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014, applicable prospectively to annual periods beginning on or after 1 July 2016)
- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014, applicable to annual periods beginning on or after 1 January 2016)
- Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014, applicable to annual periods beginning on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014, effective for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (issued in July 2014, effective for annual periods beginning on or after 1 January 2018)
- Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

ii) New and revised standards and interpretations which have been issued but are not yet effective (continued)

- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014, effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014, effective for annual periods beginning on or after 1 January 2016)

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

c) 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.

d) 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.

The specific revenue recognition policies for interest income, fee and commission 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 notional 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 and commission 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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

e) 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.

f) Income taxes

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

g) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity.

h) 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.

i) 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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

j) Financial instruments

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 excludes 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.
- Trade and other liabilities were classified as financial liabilities.

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 loss 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 uncollectibility.

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.

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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

j) Financial instruments (continued)

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.

Presentation

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the balance sheet date, those which the directors have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

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 expires.

Offsetting

Financial assets and 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.

k) 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 (CONTINUED)

2. Summary of significant accounting policies (continued)

l) Post-employment benefit obligations

(i) Defined Benefit Scheme

The liability/asset 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) and any gain or loss on settlement)
- The net interest on the net defined benefit liability/asset.

Remeasurements of the net defined benefit liability/asset are recognised in other comprehensive income, with no reclassification to profit or loss in a subsequent period. Remeasurements comprise actuarial gains/losses 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 31st 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 19.

(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.

(iv) Short term employee benefits

Employee entitlements to annual leave and long service awards are recognized when they accrue to employees.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

m) Property, plant and equipment

All categories of property, plant 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:

	<u>Rate - %</u>
Furniture & fittings	12.50
Computers, copiers & 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.

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

n) 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.

o) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

p) Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement 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, amount due from banks.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

q) Provisions

Provisions are recognized 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.

r) 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.

s) Comparatives

The comparative figures have been regrouped and reclassified to conform to current year presentation.

3. Significant judgements and key sources of estimation uncertainty

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

a) Critical accounting estimates and assumptions

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

(i) Allowance for credit losses

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

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

(ii) Carrying value of unquoted equity investments

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

NOTES (CONTINUED)

3. Significant judgements and key sources of estimation uncertainty (continued)

a) Critical accounting estimates and assumptions (continued)

(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.

4. Risk management objectives and policies

a) Financial risk management

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

Risk management framework

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

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

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

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

i) 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.

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

i) Credit risk (continued)

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.

Loans and advances to customers

The maximum exposure to credit risk from loans and advances to customers is Shs 426 million (2014: Shs 456 million), which is 50% (2014: 54%) of total financial assets.

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

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

i) Credit risk (continued)

Loans and advances to customers (continued)

	2015 Shs '000	2014 Shs '000
Individually impaired:		
Grade 4: Impaired – Doubtful	-	-
Grade 5: Impaired – Loss	6,759	6,435
	<u>6,759</u>	<u>6,435</u>
Allowance for impairment	(6,759)	(6,435)
	<u>-</u>	<u>-</u>
Carrying amounts		
Collectively impaired:		
Grade 2: Watch	-	-
Grade 1: Normal	427,788	456,854
	<u>427,788</u>	<u>456,854</u>
Portfolio impairment provision	(1,863)	(1,157)
	<u>425,925</u>	<u>455,697</u>
Carrying amounts		
	<u>425,925</u>	<u>455,697</u>
Total carrying amounts	<u>425,925</u>	<u>455,697</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.

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

i) 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.

Loans and advances	Gross Shs '000	Net Shs '000
30 June 2015		
Grade 3: Individually impaired	-	-
Grade 4: Individually impaired	-	-
Grade 5: Individually impaired	<u>6,759</u>	<u>6,759</u>
	<u>6,759</u>	<u>6,759</u>
30 June 2014		
Grade 3: Individually impaired	-	-
Grade 4: Individually impaired	-	-
Grade 5: Individually impaired	<u>6,435</u>	<u>6,435</u>
	<u>6,435</u>	<u>6,435</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.

ii) 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.

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) 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:

	2015	2014
At 30 June	4687%	1792%
Average for the year	2635%	2628%
Highest for the year	5115%	6566%
Lowest for the year	1305%	1264%

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 Shs '000	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Total Shs '000
At 30th June 2015					
Financial liabilities					
Other liability	8,639	-	-	-	8,639
Total financial liabilities	<u>8,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,639</u>
At 30th June 2014					
Financial liabilities					
Other liability	7,319	-	-	-	7,319
Total financial liabilities	<u>7,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,319</u>

iii) 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 foreign exchange risk.

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:

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk (continued)

	Effective interest rate	Interest bearing Shs '000	Non-interest bearing Shs '000	Total Shs '000
At 30th June 2015		Shs '000	Shs '000	Shs '000
Assets				
Cash in hand	-	-	15,658	15,658
Bank deposits and balances	11.47%	331,362	-	331,362
Loans and advances to customers	16.66%	425,925	-	425,925
Equity investments (Unquoted)	-	-	28,731	28,731
Other assets	-	-	10,254	10,254
At 30th June 2015		757,287	54,643	811,930
Equity and liability				
Other liabilities		-	8,639	8,639
At 30th June 2015		-	8,639	8,639
Interest rate sensitivity – 2015		757,287	46,004	803,291
	Effective interest rate	Interest bearing Shs '000	Non-interest bearing Shs '000	Total Shs '000
At 30th June 2014				
Assets				
Cash in hand	-	-	4,027	4,027
Bank deposits and balances	10.29%	127,146	1	127,147
Loans and advances to customers	17.6%	455,697	-	455,697
Equity investments (Unquoted)	-	-	210,684	210,684
Other assets	-	-	6,939	6,939
At 30th June 2014		582,843	221,651	804,494
Equity and liability				
Other liabilities		-	7,319	7,319
At 30th June 2014		-	7,319	7,319
Interest rate sensitivity – 2014		582,843	214,332	797,175

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.

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk (continued)

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 2015 and 31 June 2014.

The significant currency positions are detailed below:

At 30th June 2015	US Shs '000	Euros Shs '000	Total Shs '000
Assets			
Cash and balances with banks	686	153	839
Other assets	6,931	-	6,931
Total assets	<u>7,617</u>	<u>153</u>	<u>7,770</u>
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	<u>7,617</u>	<u>153</u>	<u>7,770</u>
At 30th June 2014	US Shs '000	Euros Shs '000	Total Shs '000
Assets			
Cash and balances with banks	439	161	600
Other assets	6,158	-	6,158
Total assets	<u>6,597</u>	<u>161</u>	<u>6,758</u>
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	<u>6,597</u>	<u>161</u>	<u>6,758</u>

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, post-tax profit would have increased by Shs 544,000 (2014: increased by Shs 473,000). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

b) Operational risk

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

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

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

NOTES (CONTINUED)

4. Risk management objectives and policies (continued)

b) Operational risk(continued)

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

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

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

c) 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.

d) 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.

	2015 Shs '000	2014 Shs '000
5. Interest income		
Interest income on loans	73,209	59,811
Interest income on staff loan	710	734
Interest income on fixed deposits	17,378	21,732
Interest income nostro accounts	21	53
	<u>91,318</u>	<u>82,330</u>
6. Non interest income		
Appraisal fees	<u>2,150</u>	<u>1,958</u>
7. Other operating incomes		
Dividend income	-	2,170
Director's fees received from companies where IDB sits on Board's	-	180
Write-backs	-	193
	<u>-</u>	<u>2,543</u>

NOTES (CONTINUED)

	2015 Shs '000	2014 Shs '000
8. Net impairment losses on loans and advances		
Net increase in provision charged to profit and loss account (Note 16(b))	1,030	1,200
Recoveries from loans and advances written off from prior years	-	(533)
Charge to the profit and loss account	<u>1,030</u>	<u>667</u>
9. Other income		
Miscellaneous income receipt	2	4
Exchange gain	841	281
Gain on disposal of property plant and equipment	-	97
	<u>843</u>	<u>382</u>
10. Profit/(loss) before tax expense		
(a) Items charged		
The following items have been charged in arriving at profit/(loss) before tax expense:		
Directors' remuneration		
- Salary	-	2,836
- Fees and allowances	3,829	5,110
Employee benefits expense (Note 10(b))	51,196	61,146
Depreciation of property, plant and equipment	2,659	3,117
Amortisation of intangible assets	844	1,238
Operating lease expenses	6,841	6,659
Net foreign exchange gain	841	281
Auditor's remuneration	<u>1,550</u>	<u>1,805</u>
(b) Employee benefits expense		
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	4,467	4,361
National Social Security Fund	<u>272</u>	<u>73</u>
11. Tax (expense)/income		
Deferred income tax (Note 22)	-	-
Current income tax	-	-
Tax expense	<u>-</u>	<u>-</u>
The tax on the company's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit/(loss) before income tax	<u>6,105</u>	<u>(18,192)</u>
Tax calculated at a rate of 30%	1,832	(5,458)
Tax effect of:		
Expenses not deductible for tax purposes	881	2,112
Income not deductible for tax purposes	-	(652)
Movement in deferred income tax not recognised	(2,713)	4,013
Prior year overprovision	-	(15)
Tax expense	<u>-</u>	<u>-</u>

NOTES (CONTINUED)

12. Dividends

At the forthcoming annual general meeting, a final dividend in respect of the year ended 30th June 2015 of Shs 0.29 per share amounting to Shs 234,742 (2014: Shs Nil) is to be proposed. As per the Kenyan Companies Act, these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 30th June 2015. Payment of dividend is subject to deduction of withholding tax at a rate of 0%, 5% and 10% depending on the tax status or residency of the shareholder.

13. Earnings per share	2015 Shs '000	2014 Shs '000
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of shares in issue during the year.		
Net profit/(loss) attributable to shareholders	<u>6,105</u>	<u>(18,192)</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 (Shs)	<u>0.15</u>	<u>(0.45)</u>

There were no potentially dilutive shares outstanding at 30th June 2015 and 30th June 2014. Diluted earnings per share is therefore the same as basic earnings per share.

14. Cash and bank balances	2015 Shs '000	2014 Shs '000
Cash in hand	15	34
Cash at local banks	15,643	3,393
Cash at foreign banks	<u>-</u>	<u>600</u>
Cash in hand	<u>15,658</u>	<u>4,027</u>
15. Deposits with financial institutions		
I & M Bank Limited	75,000	-
Family Bank Limited	72,250	57,315
National Bank of Kenya Limited	76,553	-
Bank of Africa Limited	33,559	69,832
Housing Finance Limited	<u>74,000</u>	<u>-</u>
	<u>331,362</u>	<u>127,147</u>

The weighted average effective interest rate on placement with banks at 30th June 2015 was 11.47% (2014: 10.22%).

16. Loans and advances to customers	2015 Shs '000	2014 Shs '000
a) Loans and advances to customers		
Commercial loans	413,372	442,043
Interest and other fees receivable	6,516	6,977
Employee loans	<u>14,659</u>	<u>14,269</u>
Gross loans and advances to customers	<u>434,547</u>	<u>463,289</u>
Less: Provision for impaired loans and advances (Note 16(b))	<u>(8,622)</u>	<u>(7,592)</u>
Net loans and advances	<u>425,925</u>	<u>455,697</u>
b) Impairment losses on loans and advances		
At 1st July	7,592	6,392
Net increase in provision for impairment charged to profit and loss account (Note 8)	<u>1,030</u>	<u>1,200</u>
At 30th June	<u>8,622</u>	<u>7,592</u>

NOTES (CONTINUED)

16. Loans and advances to customers (continued)

c) Concentration of risk

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

	2015 Shs '000	2015 %	2014 Shs '000	2014 %
Manufacturing	11,244	3	173,105	37
Food and animal feeds	69,367	16	95,740	21
Engineering	161,025	37	7,051	2
Business services	1,305	1	3,287	1
Mining and quarrying	28,156	6	33,677	7
Transport, communications and power	70,521	16	96,908	21
Healthcare services	78,270	18	39,252	8
Others	14,659	3	14,269	3
	<u>434,547</u>	<u>100</u>	<u>463,289</u>	<u>100</u>

d) Maturity analysis

	2015 Shs '000	2014 Shs '000
Matured and maturing within 1 year	89,585	98,675
Less: Provision for impaired loans and advances	<u>(8,622)</u>	<u>(7,592)</u>
	80,963	91,083
Maturing after 1 year	<u>344,962</u>	<u>364,614</u>
	<u>425,925</u>	<u>455,697</u>

17. Financial assets (unquoted)

Non current - Available for sale financial assets

Equity investments	<u>28,731</u>	<u>210,684</u>
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There is no active market for the equity investments and accordingly fair value cannot be reliably measured, therefore these are carried at cost.

They are categorised as follows:

	2015 Shs '000	2014 Shs '000
Non Current		
Manufacturing sector:		
Nzoia Sugar Company Limited	5,000	5,000
South Nyanza Sugar Company Limited	1,000	1,000
Financial institutions and investment companies:		
Consolidated Bank of Kenya Limited	20,800	20,800
African Export-Import Bank	<u>6,931</u>	<u>6,158</u>
	<u>33,731</u>	<u>32,958</u>
Impairment loss (Nzoia Sugar Company Limited)	<u>(5,000)</u>	<u>(5,000)</u>
	<u>28,731</u>	<u>27,958</u>
Current		
Manufacturing sector:		
Almasi Beverages Limited	-	<u>182,726</u>
Total financial assets	<u>28,731</u>	<u>210,684</u>

NOTES (CONTINUED)

17. Financial assets (unquoted) (continued)

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

The impairment loss relates to investment in Nzoia Sugar Company Limited. Based on the current trading circumstances of this company, the director have made full provision on the investment.

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

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
At 30th June 2015				
Available-for-sale financial assets	-	-	33,731	33,731
Total	-	-	33,731	33,731
At 30th June 2014				
Available-for-sale financial assets equity investments	-	182,726	32,958	215,684
Total	-	182,726	32,958	215,684

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);

Level 3: inputs for the asset that are not based on observable market data.

The movement in the fair value of those assets measured at fair value were as follows:

	Available-for sale financial assets		Total
	Level 2 Shs'000	Level 3 Shs'000	Shs'000
Period ended 30th June 2015			
At start of year	182,726	32,958	215,684
Sale of equity investment	(182,726)	-	(182,726)
Exchange gain on retranslation of investment denominated in foreign currency	-	773	773
At end of year	-	33,731	33,731
Total gains for the period included in the profit and loss account for assets held at the end of the reporting period	-	773	773
Period ended 30th June 2014			
At start of period	114,168	32,833	147,001
Gain in fair value of financial assets	68,558	-	68,558
Exchange gain on retranslation of investment denominated in foreign currency	-	125	125
At end of period	182,726	32,958	215,684
Total gains period included in the profit and loss account for assets held at the end of the reporting period	68,558	125	68,683

NOTES (CONTINUED)

	2015 Shs '000	2014 Shs '000			
18. Other assets					
Prepayments	4,946	5,730			
Others	5,308	1,209			
	<u>10,254</u>	<u>6,939</u>			
19. Defined benefit asset					
Present value of funded obligations	76,332	77,585			
Fair value of scheme assets	(79,206)	(81,004)			
Net over funding in the scheme	<u>(2,874)</u>	<u>(3,419)</u>			
Net asset in the balance sheet	<u>(2,874)</u>	<u>(3,419)</u>			
Movements in the net present value of the defined obligations					
Net defined benefit (asset)/liability as at 1st July	(3,419)	2,776			
Unrecognised actuarial loss as at 1st July	-	3,530			
Net (income)/expenses recognised in the profit & loss account	(382)	512			
Employers contributions	-	(4,415)			
Amount recognized in other comprehensive income	927	(5,822)			
Net defined benefit asset as at 30 June	<u>(2,874)</u>	<u>(3,419)</u>			
(Income)/expense recognised in the profit & loss account					
Current Service cost	92	-			
Interest on obligation	10,195	9,634			
Expected return on plan assets	(10,669)	(9,122)			
Total (income)/expense included in administrative expenses	<u>(382)</u>	<u>512</u>			
Actual return on plan assets	<u>9,536</u>	<u>8,813</u>			
Actuarial assumptions					
Discount rate (p.a)	13.25%	13.50%			
Expected return on scheme assets	12.00%	12.00%			
Future salary increases	8%	8%			
Future pension increases	0%	0%			
Historical information					
	2015 Shs '000	2014 Shs '000	2013 Shs '000	2011 Shs '000	2010 Shs '000
Present value of funded obligations	76,332	77,585	80,068	66,895	51,132
Fair value of scheme assets	(79,206)	(81,004)	(73,762)	(60,960)	(54,832)
Unrecognised actuarial loss	<u>-</u>	<u>-</u>	<u>(3,530)</u>	<u>(3,863)</u>	<u>(4,540)</u>
Defined benefit (asset)/liability	<u>(2,874)</u>	<u>(3,419)</u>	<u>2,776</u>	<u>2,072</u>	<u>(8,240)</u>

NOTES (CONTINUED)

20. Property, plant and equipment

	Motor vehicles Shs '000	Office equipment Shs '000	Furniture & fittings Shs '000	Other assets Shs '000	Total Shs '000
At 1st July 2013					
Cost	6,651	19,673	5,488	2,441	34,253
Accumulated depreciation	(5,262)	(14,201)	(3,997)	(1,090)	(24,550)
Net carrying amount	1,389	5,472	1,491	1,351	9,703
Period ended 30th June 2014					
Opening carrying amount	1,389	5,472	1,491	1,351	9,703
Additions	-	260	103	-	363
Write off	-	(64)	(140)	-	(204)
Accumulated depreciation on write offs	-	40	81	-	121
Accumulated depreciation on prior year adjustment	-	(70)	(11)	-	(81)
Depreciation charge	(860)	(1,502)	(450)	(305)	(3,117)
Closing carrying amount	529	4,136	1,074	1,046	6,785
At 30th June 2014					
Cost	6,651	19,869	5,451	2,441	34,412
Accumulated depreciation	(6,122)	(15,733)	(4,377)	(1,395)	(27,627)
Net carrying amount	529	4,136	1,074	1,046	6,785
Year ended 30th June 2015					
Opening carrying amount	529	4,136	1,074	1,046	6,785
Additions	-	469	-	-	469
Write off	-	(233)	-	-	(233)
Accumulated depreciation on write offs	-	211	-	-	211
Depreciation charge	(529)	(1,401)	(424)	(305)	(2,659)
Closing carrying amount	-	3,182	650	741	4,573
At 30th June 2015					
Cost	6,651	20,105	5,451	2,441	34,648
Accumulated depreciation	(6,651)	(16,923)	(4,801)	(1,700)	(30,075)
Net carrying amount	-	3,182	650	741	4,573

21. Intangible assets

	Software cost	
	2015 Shs '000	2014 Shs '000
Cost		
At 1st July		
Write off	32,283	32,463
	-	(180)
At 30th June	32,283	32,283
Amortisation		
At 1st July		
Accumulated amortization eliminated on write off	30,246	29,134
Charge for the year	-	(126)
	844	1,238
At 30th June	31,090	30,246
Net book amount	<u>1,193</u>	<u>2,037</u>

NOTES (CONTINUED)

22. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%). Deferred tax assets and liabilities, and the deferred tax charge in the profit and loss account is attributable to the following items:

Year ended 30th June 2015	At 1st July 2014 Shs '000	(Charge) to profit & loss Shs '000	At 30th June 2015 Shs '000
Deferred income tax asset			
Property, plant and equipment	2,051	(43)	2,008
Provisions for doubtful debt	347	212	559
Provision for leave	708	(11)	697
Unrealised exchange gains	(37)	37	-
Defined benefit scheme	(1,026)	164	(862)
Tax losses carried forward	198,756	(3,072)	195,684
Net deferred tax asset	200,799	(2,713)	198,086
Deferred tax asset not recognised	(200,799)	2,713	(198,086)
	-	-	-
Year ended 30th June 2014	At 1st January 2013 Shs '000	(Charge) to profit & loss Shs '000	At 30th June 2014 Shs '000
Deferred income tax asset			
Property, plant and equipment	2,069	(18)	2,051
Provisions for doubtful debt	165	182	347
Provision for leave	706	2	708
Provision for gratuity	1,094	(1,094)	-
Unrealised exchange gains	(11)	(26)	(37)
Defined benefit scheme	833	(1,859)	(1,026)
Tax losses carried forward	191,930	6,826	198,756
Net deferred tax asset	196,786	4,013	200,799
Deferred tax asset not recognised	(196,786)	(4,013)	(200,799)
	-	-	-

Under the Kenyan Income Tax Act, with effect from 1st January 2010, tax losses are allowable as a deduction only in the four years succeeding the year in which they occurred. The tax losses of Shs 652,280,920 carried forward would expire as follows:

Arising in:	Tax losses Shs '000	Expiring:
2010 and earlier	(602,259)	31 December 2014
2011	(27,271)	31 December 2015
2014	(22,751)	30 June 2018
Tax losses carried forward	(652,281)	

Based on the Finance Bill 2015, there is a proposal to allow the carry forward of tax losses for a period of 10 years. This is subject to approval by the National Assembly. Based on the proposed change, the tax losses expiring on 31st December 2014 have been carried forward.

NOTES (CONTINUED)

22. Deferred income tax (continued)

A deferred tax asset of Shs 198,086,000 (2014: Shs 200,799,000) 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 considering lack of committed funding arrangements as of 30 June 2015.

	2015 Shs '000	2014 Shs '000
23. Other liability		
Sundry creditors	3,491	2,359
Accruals	5,148	4,960
	<u>8,639</u>	<u>7,319</u>

24. Share capital

	No. of shares	Issued and paid up share capital Shs '000
At 1st January and 30th June 2014		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	2,647,500	52,950
	<u>40,501,000</u>	<u>810,020</u>
At 1st January and 30th June 2015		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	2,647,500	52,950
	<u>40,501,000</u>	<u>810,020</u>

The total authorised shares capital is Shs 1,000,000,000 (2014: Shs 1,000,000,000) made up of 46,000,000 (2014: 46,000,000) 'A' ordinary shares of Shs 20 each and 4,000,000 'B' ordinary shares of Shs 20 each.

25. Cash and cash equivalents

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

	2015 Shs '000	2014 Shs '000
Cash in hand	15	34
Bank balances and deposits	347,005	131,140
	<u>347,020</u>	<u>131,174</u>

NOTES (CONTINUED)

26. Off balance sheet contingencies and commitments

Operating lease commitments

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

	2015 Shs '000	2014 Shs '000
Not later than 1 year	<u>3,953</u>	<u>1,584</u>

27. Related party transactions

a) Executive director's remuneration

- Salary	-	2,836
- Other allowances	<u>-</u>	<u>1,273</u>
	<u>-</u>	<u>4,109</u>

b) Director's emoluments (including executive director's remuneration)

Salary	-	2,836
Fees and allowances	<u>3,829</u>	<u>5,110</u>
Total	<u>3,829</u>	<u>7,946</u>

28. 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.

29. Events after the balance sheet date

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

SCHEDULE OF OPERATING EXPENDITURE

	2015 Shs'000	2014 Shs'000
1. EMPLOYEE BENEFITS EXPENSE		
Employment:		
Salaries and wages	37,493	40,063
Staff and other expenses	6,322	3,071
Staff medical	4,996	6,186
Staff training	1,220	1,524
Gratuity	-	121
Pension fund	1,165	10,181
Total employment costs	<u>51,196</u>	<u>61,146</u>
2. ADMINISTRATIVE EXPENSES		
Executive directors' remuneration		
- Salary	-	2,836
- Other allowances	-	1,273
Non-executive directors' remuneration		
- Fees and allowances	3,829	3,837
Security expenses	504	502
Office cleaning and maintenance	680	700
Subscriptions	1,041	1,312
Advertising, publicity and donations	335	2,350
Insurance	535	513
Audit fees	1,550	1,805
Professional services	5,563	4,397
Vehicle running and maintenance	314	339
Telephone, internet and postage expenses	2,019	2,084
Travelling and entertainment	1,935	1,482
Printing and stationery	507	726
Licenses	2,798	3,800
Bank charges	206	347
Repairs and maintenance	2,706	2,834
Other expenses	1,114	1,441
Total administrative expenses	<u>25,636</u>	<u>32,578</u>
3. OPERATING LEASE EXPENSE		
Rent and service charge	5,867	5,868
Parking fees	974	791
Total operating lease expenses	<u>6,841</u>	<u>6,659</u>
4. DEPRECIATION AND AMORTISATION		
Amortisation of intangible asset	844	1,238
Depreciation of property plant and equipment	2,659	3,117
Total depreciation and amortisation expenses	<u>3,503</u>	<u>4,355</u>