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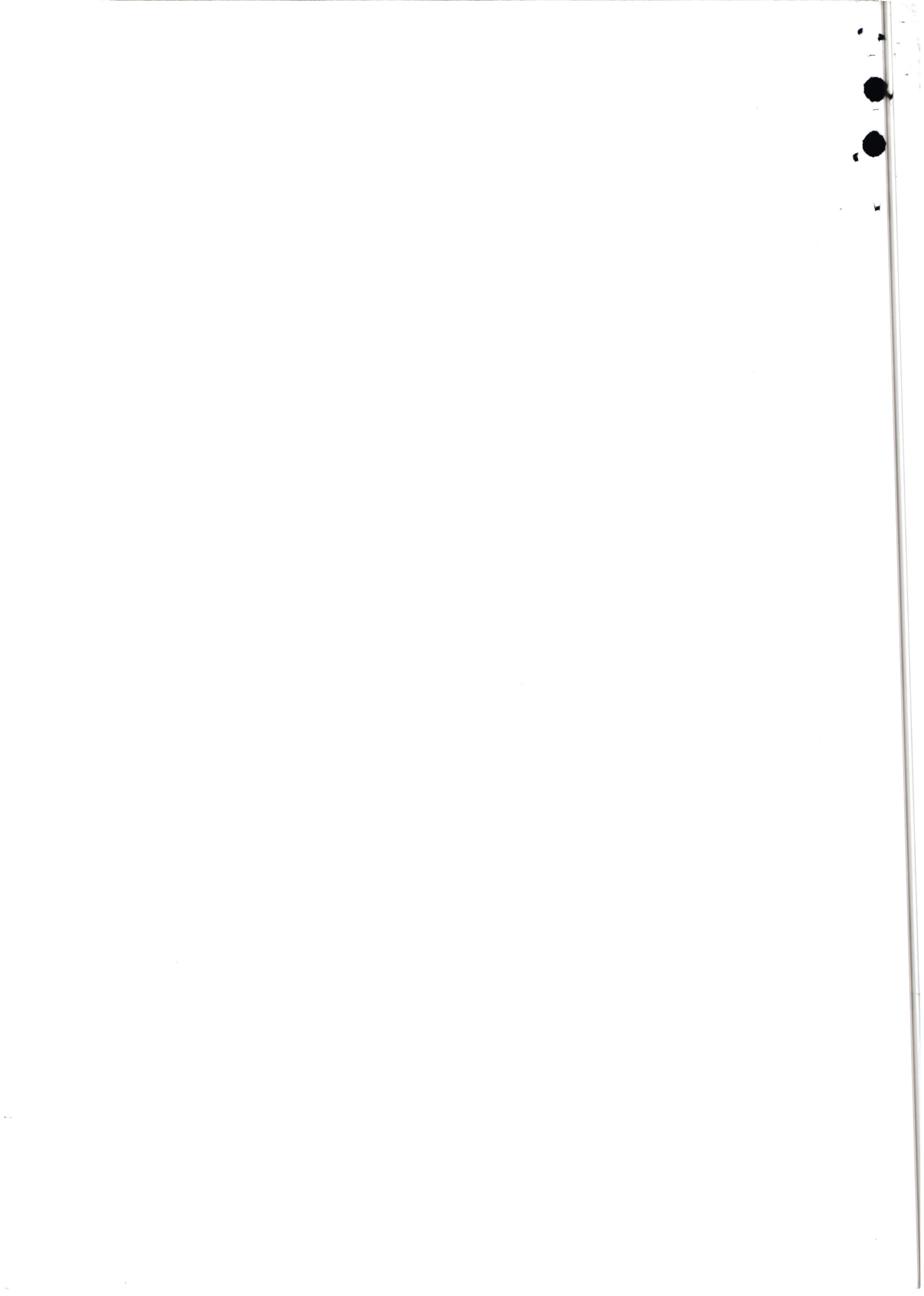
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
IDB CAPITAL LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2016**



IDB CAPITAL LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

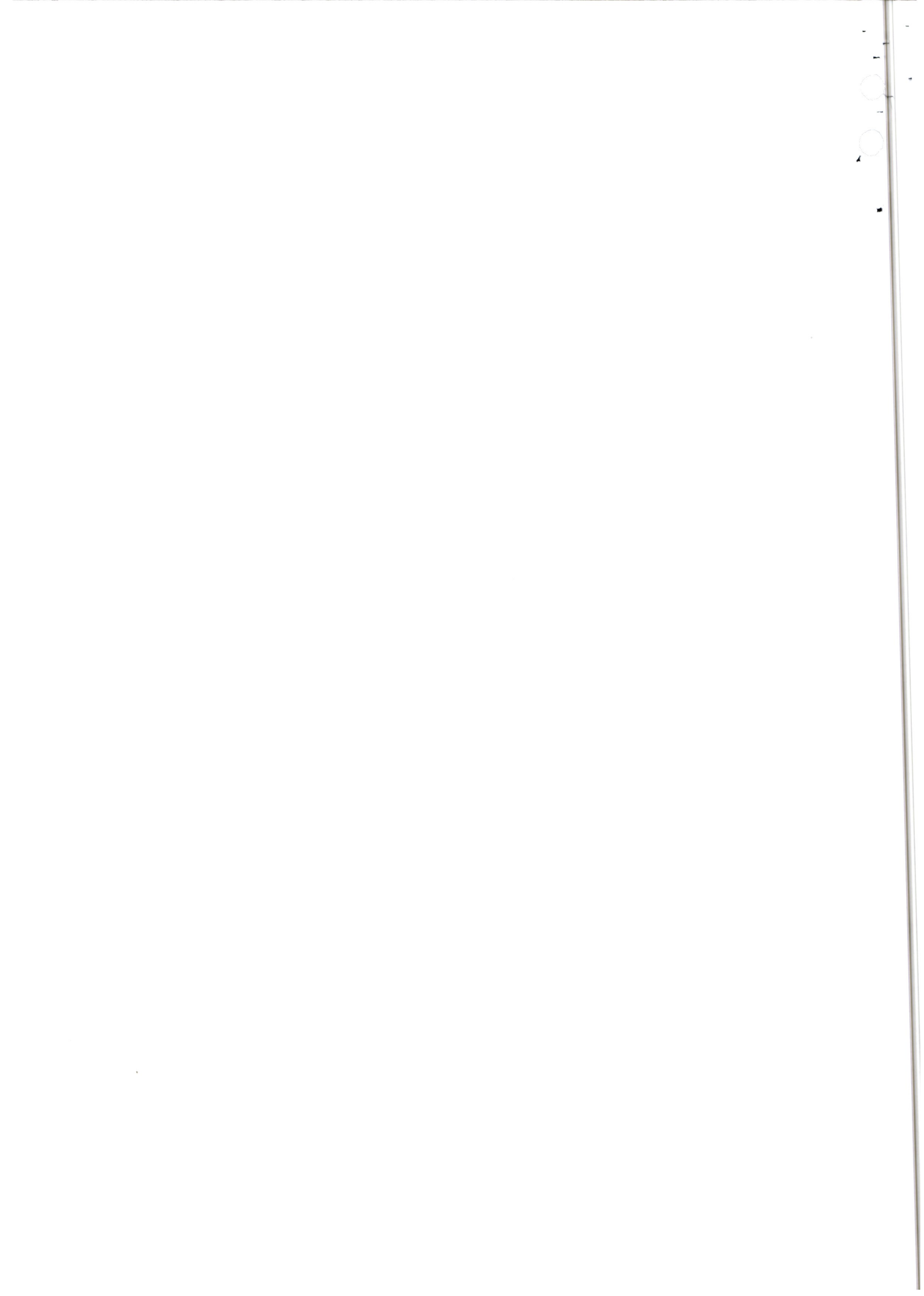
AT

30 JUNE 2016



IDB CAPITAL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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IDB CAPITAL LIMITED

DIRECTORS AND STATUTORY INFORMATION

Background information

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

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

Principal activities

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

Board of directors

The directors who served the Company during the year were as follows:

Prof. Michael Bowen	Chairman (appointed on 23 June, 2016)
Peterson Mwai	Chairman (retired 30 September 2015)
Timothy Tiampati	Ag. Managing Director
Cabinet Secretary, The National Treasury	Represented by Henry K. Rotich
Permanent Secretary, Ministry of Industry, Trade & Cooperatives	Represented by Julius K. Korir
National Bank of Kenya Limited	Represented by Wilfred Musau
Industrial and Commercial Development Corporation	Represented by Edward Gitau
Kenya National Assurance Company (In liquidation)	Represented by Bernice Gachegu
Kenya Reinsurance Corporation Limited	Represented by Jadhiah Mwarania
John Paul K. Kenduiywa	Independent Director (retired on 31 May 2016)
Michael M. Kiswili	Independent Director
Hillary Korir	Independent Director (joined the Board on 31 May 2016)

Company Secretary

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

Registered office & headquarters

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

Corporate contacts

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



IDB CAPITAL LIMITED

DIRECTORS AND STATUTORY INFORMATION (CONTINUED)

Authorised independent auditor

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

On behalf of:

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

Principal bankers

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

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

Legal advisors

Adera and Company Advocates
P.O. Box 54556 - 00200
Nairobi

Mwaura Wachira, Advocates
P.O. Box 51667 - 00200
Nairobi

Kittony Maina Karanja Advocates
P.O. Box 74221 - 00200
Nairobi

Moronge & Company Advocates
P.O. Box 44289-00100
Nairobi

Amolo & Gachoka Advocates
P. O. Box 53319 - 00200
Nairobi

Kibatia & Company Advocates
P. O. Box 20631 - 00200
Nairobi



IDB CAPITAL LIMITED

BOARD OF DIRECTORS



Prof. Michael Kipyego Bowen

Prof. Michael Kipyego Bowen was born on 22nd July 1969. He is an associate professor of environment and economics and currently the chairman of IDB Capital. He is also the Director for Research, Publications and Consultancy at Daystar University. He was a council member of Daystar University between 2012 and 2014. Between 2013 and 2015, he was the deputy director (Quality Assurance) at Daystar University.

Previously, he was the head of Department of Business Administration at Kenya Methodist University and has been member of several school boards in Keiyo South Constituency. He has taught at University level for the last 15 years and supervised several masters and PhD students. He has published several articles and book chapters and has attended several international conferences spanning the globe.



Mr. Henry K. Rotich, EGH
Cabinet Secretary, National Treasury

Mr. Henry K. Rotich, EGH is the Cabinet Secretary, National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years.

Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001 - 2004. He has been a Director of several Boards of State Corporations including; Kenya Reinsurance Corporation, Insurance Regulatory Board, Communication Commission of Kenya and Kenya National Bureau of Statistics.

Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics (University of Nairobi).



Mr. Julius K. Korir
Principal Secretary, State Department of
Industry and Enterprise Development in the
Ministry of Industry, Trade and
Co-operatives

Mr. Julius K. Korir is the Principal Secretary, State Department of Industry and Enterprise Development in the Ministry of Industry, Trade and Co-operatives having been appointed on 18th December 2015. Prior to his latest appointment, he served as the Industrialization Secretary, Ministry of Industrialization and Enterprise Development from May 2014.

Previously, he served in the Export Promotion Council for over 15 years in various positions rising up to become the General Manager in charge of Trade Information and Business Advisory Services in 2008. Between August 2011 and August 2012, he served as the Acting Managing Director for the Kenya Investment Authority. He is a holder of an MBA in International Business and a BSc. in Agricultural Economics. Mr. Korir is currently pursuing a PHD Degree in Development Studies at Nairobi University.



IDB CAPITAL LIMITED

BOARD OF DIRECTORS (CONTINUED)



Mrs. Bernice Gachegu
Representing Kenya National Assurance Company
(In Liquidation)

Mrs. Gachegu was born on 22nd May 1957 and 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. Jadhiah Mwarania, OGW
Representing Kenya Reinsurance Corporation

Mr. Jadhiah Mwarania was born on 4th Sept 1964 and is the Managing Director of the Kenya Reinsurance Corporation. He holds a Bachelor of Commerce (B.com.) (Hons.) and Master of Business Administration (MBA) degree from the University of Nairobi and currently is undertaking a PHD in strategic management. He is a Fellow of the Chartered Insurance Institute of London (FCII) and Insurance Institute of Kenya (FIK) and is a Chartered Insurer (CI) of the Insurance Institute of London. He is a Fellow of the Kenya Institute of Management (FMKIM).

Mr Mwarania is a Director on the Board of Directors of Zep Re (PTA Reinsurance Company) and the Chairman of the Association of Kenya Reinsurers (AKR), a Board Member of the Insurance Training and Education Trust (ITET) and member of the Finance and Development Committee of the Board of the College of Insurance of Kenya.



Mr. Edward J. G. Gitau
Representing Industrial & Commercial
Development Corporation

Mr. Gitau was born on 17th February 1963. He is currently a Credit Manager with ICDC where he has worked since 1989. Mr Gitau holds a Bachelor of Arts (Economics & Statistics) and is a Certified Securities & Investment Analyst. He has over 20 years' experience in project investment analysis, project implementation and investment monitoring.



IDB CAPITAL LIMITED

BOARD OF DIRECTORS (CONTINUED)



Mr. Wilfred Musau
Representing National Bank of Kenya

Mr Musau was born on 2nd June 1973 and is the Ag. Managing Director & CEO of NBK having joined the Bank in September 2015 as the Director in charge of the Retail & Premium banking division. He has over 18 years of consumer and commercial banking experience coupled with local and international experience and exposure.

Mr. Musau is a B.Com holder from Kenyatta University – Major in Banking and Finance, Holds a Masters Class certification in Strategy- USB University of Stellenbosch Business School – SA, UK Euro Money training in – advanced corporate banking, Master class in SME Banking and Master Class in Retail banking.



Mr. Michael M. Kiswili ,EBS
Independent Director

Mr. Kiswili was born on 25th August, 1951. He 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.



Mr. Hillary Korir
Independent Director

Mr. Hillary Korir was born on 20th Oct 1981. He holds a Bachelor of Social Studies (Sociology- Moi University) and is and currently undertaking a Master's in Business Administration-Strategic Management (Mt. Kenya University).

Notable Work experience- Research Assistant (Nielsen & Millward Brown EA Ltd.) and Lecturer- Mt. Kenya University and Jomo Kenya University of Agriculture & Technology (JKUAT); Nakuru Campuses.



Mr. Timothy K. Tiampati
Ag. Managing Director

Mr. Tiampati was born in 1959 and 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 a Director of Almasi Beverages Limited and Nzoia Sugar Company.



IDB CAPITAL LIMITED

BOARD OF DIRECTORS (CONTINUED)

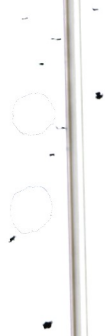


Mrs. Rebecca A. Kinyanjui
Chief Legal Officer/
Company Secretary

Mrs. Kinyanjui was born in 1961 and 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

Name of the Staff	Responsibility
Timothy K. Tiampati	Ag. Managing Director
Rebecca A. Kinyanjui	Chief Legal Officer/Company Secretary
Priscilla N. Njuguna	Manager, Legal Affairs
Anne N. Gitau	Manager, Finance & Accounts
Judith A. Omachar	Ag. Chief of Credit



IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT

Introduction

I am delighted to present to you the Annual Report and Audited Financial Statements of IDB Capital Limited for the year ended June 30, 2016.

Overview of the economy

For the period, moderate global economic growth was registered with real average Gross Domestic Product standing at 3.3% (UN/DESA et al, 2015). This was largely attributable to support from accommodative Central Banks' policies in the developed economies. With uncertainty in US Markets, the Federal Reserve Bank undertook Fed rate's hike while the European Commercial Bank (ECB) pursued steady quantitative easing programme, with a view to stimulating growth within the Eurozone. On the other hand, China (key player in emerging markets) witnessed economic slowdown as her market volatility took toll arising from weak growth as well as from uncertainty of the Chinese government's willingness to supporting her stock market.

The sub-Saharan Africa region too reported slowdown in economic activity in 2015 (3.4% in 2015 compared to 5.1% in 2014 as per IMF estimates). This was a knock-off effect attributable to both internal economic challenges and external pressures. Economic slowdown in China, one of the principal trading partners with the region, impacted negatively on the overall growth by significantly reducing demand for sub-Saharan Africa's exports, especially commodities. Despite the drop in growth in the period, Sub-Saharan Africa still had the second highest growth globally, behind emerging markets growth. This growth was hinged on favourable demographics characterised by growing middle-income population that led to rising consumption; increased infrastructural investments and relatively stable political environments in the region.

Kenya's macro environment was challenging. Despite National Treasury budget of KShs 2.1 trillion to revamp the economy, the Gross Domestic Product (GDP) growth targets fell below expectation of 6.9% attaining 5.8% in 2015). This arose from a number of factors including weaker than expected companies earnings thereby negatively impacted Kenya Revenue Authority (KRA) collections; depreciation of Kenya shilling that affected companies that rely on imports; and prevailing high interest rate environment which discouraged credit uptake, stifled investment expenditures and caused a spike in non-performing loans. Inflation remained under check largely due to relatively lower food and fuel prices.

Developments in the financial sector

The financial services sector in Kenya and especially the banking segment remained in change. Leading this change is the sector's regulator. The Central Bank of Kenya has scaled up the level of supervision and oversight over banks, with a focus on corporate governance. This arose from market shocks experienced over corporate mishaps of Chase Bank and Imperial Bank (all presently under receivership). The transition is expected to yield a more transparent, well-governed and efficient sector, which has fewer large and stable players.

A number of sectoral reforms were introduced and are under implementation. These include Kenya Banks' Reference Rate (KBRR) and Annual Percentage Rate (APR) frameworks. These initiatives continue to foster a transparent credit pricing framework and enhanced transmission of monetary policy signals through lending rates. Additionally, sustained use of the credit reference bureaus continue to push down costs of information search and customer risk-profiling, thereby benefiting the industry as a whole.

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IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

It is noticeable that the financial services sector in Kenya continued to attract both debt and equity players driven by improved regulatory frameworks, growth of middle class population with increasing numbers seeking financial services. A number of innovative technologies have also been adopted by the financial services sector.

In aggregate terms, the financial sector posted a growth of 10.1% in 2015. This was largely from non-interest incomes, increased earnings from fees and commissions as well as high yields from government securities, with dotting financial institutions being categorised as strong growth, stable growth, anaemic growth and negative growth banks. In the period under review, interest rates remained fairly high. The Central Bank Rate (CBR) was maintained at 11.5% for the better part of the year but was marginally adjusted to 10.5% in June 2016.

The year's business operations

IDB Capital Ltd remains a going concern in spite of the initiated process of Parastatal Reform which envisages IDB merger with two other Development Finance Institutions to yield Kenya Development Bank. As an institution, we are ready as and when this process will become a reality. The Board, management and staff at IDB continue to anticipate changes in both the macro and micro environments that could impact on our operations both in short, medium and long-term. The expected changes will be managed with tact, prudence and in the best interest of stakeholders. Of keen interest has been resource mobilization which we tenaciously continue to pursue with our partners including off-shore development financial institutions (DFIs) in support with our parent Ministry- Ministry of Industry, Trade and Cooperatives as well as the National Treasury, in securing a robust financial basket for the institution. And to this effect, we note with delight that in the year, a \$30 Million Credit Line funding opportunity has been signed between the Government of Kenya and the Government of India, in view of supporting industrial SMEs access friendly credit terms through IDB. This fund's operationalization structures and terms are under discussion among IDB, Ministry of Industry and the National Treasury; and roll-out is anticipated soon. Moreover, we continue to explore channels of unlocking \$20 Million from Afrexim Bank with Kenya's National Treasury.

In sustaining our strategic corporate endeavours, IDB adopts and implements her aspirations through strategic planning. The institution has undergone full cycle of strategic plan development for the period 2016-2021. Through this plan, the institution has defined her strategic direction that spans four themes, namely funding, loans and advances, governance and people as well as operational excellence. In a nutshell, the plan desires to institute and execute overall growth in the organization for the next five years. This shall be built upon a retiring stabilization journey that IDB has been implementing which has secured her back to sustained profitability.

IDB continues to play her rightful role in the Kenyan economy. For the period ending 30th June, 2016, total credit amount of over KShs 467 Million was approved for disbursement to diverse projects against a target of KShs 290 Million thereby supporting 145 direct jobs against a target of 90 direct jobs. This lending continues to benefit numerous sectors of the Kenyan economy including manufacturing, tourism, engineering, basic metals, textiles, food and beverage, agriculture, mining, iron and steel industry among others as envisioned under Vision 2030 and Kenya Industrial Transformation Programme.

IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

Financial performance

The period between July 2015 and June 2016 was challenging for IDB's operations with limited lending resources and uncertain future owing to the scheduled Parastatals reform process. The institution was implementing the last phase of her revised corporate Strategic Plan 2012-2016 which anchored on specific contribution to the Nation's development through Promotion of Industrial Growth, Development, Employment, Prosperity, Equity and Value addition.

For the period, we posted an impressive pre-tax Profit of KShs 20.8 Million against an annual target of KShs 11.8 Million; Annual Return on Investment of 2.43% against a target of 0.97% and an annual Development Index of 12.73% against a target of 12.70%. This marked improved financial performance in the year as a result of sustained good interest income from money markets, loan projects repayment inflows and continued observance of strict control on administrative expenses.

The Board, Management and Staff of IDB remain confident that with our collective and sustained fidelity to execute IDB's corporate plan 2016-2021, stakeholders support and stable operating environments, we shall continue to steer IDB Capital to new growth frontiers, in years ahead.

Corporate governance

The Board of Directors continues to support the adoption and implementation of best practice in Corporate Governance at IDB Capital Ltd. In the year, the board adopted Mwongozo code, had her Board charter subsequently updated and spelt out Mwongozo code implementation plan. We remain committed to implementing these corporate governance instruments to the fullest extent, so long as it is within our means and capabilities.

The institution further continues to consider and adopt best practices as spelt out by the Central Bank of Kenya, for instance the Kenya Bank Reference Rate (KBRR) regime in determining lending rates, among others. Additionally, as subscribed member to the Association of Africa Development Finance Institutions (AADFI) we continue to comply with its prudential guidelines for DFIs. In the year, I am pleased to note that the institution attained an aggregate assessment score of 82% against a target of 80%. This underscores our commitment to continual improvement on operations, governance and financial requirements.

Board changes

During the year, the institution received two new members to her board. Prof. Michael Bowen was appointed as Chairman and Mr. Hillary Korir as an Independent Director. The two were appointed by the Government of Kenya and they bring exceptional experience and dynamism to the board from Academia. On the other hand, Mr John Paul Kenduiywa and Mr. Peterson Munene Mwai retired from Board Service at IDB Capital. We are indebted to their exceptional service and wish them well in their other pursuits.

Personal gratitude

I would like to thank Management and Staff of IDB for the good performance achieved in the last year, notwithstanding the challenges faced.

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IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

I remain confident that requisite skills, competences and attitudes are resident in Our Parent Ministry, IDB Board, Management and staff in optimizing significant opportunities as we ameliorate impact of challenges, ahead.

I heartily thank my colleagues on the Board for their sound guidance and support to the organization during this period.

To our customers, we shall continue enabling your credit access aspirations with ease. And to our shareholders and other stakeholders, we shall continue to be true to our mandate and to your expectations.

Thank you.

A handwritten signature in black ink, appearing to read 'M Bowen', written over a horizontal line.

Prof. Michael Bowen, PhD
Chairman

Date: 22 September 2016



REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of IDB Capital Limited set out on pages 22 to 63, which comprise the statement of financial position as at 30 June 2016, 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 KPMG Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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

IDB Capital Limited - Annual Report and Financial Statements for the year ended 30 June 2016

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.

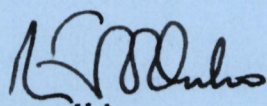
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of IDB Capital Limited as at 30 June 2016, 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 Kenyan Companies Act.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit that, in my opinion,

- (i) The information given in the Directors' report for the year ended 30 June 2016 is consistent with the financial statements;
- (ii) Adequate accounting records have been kept by Company so far as appears from my examination of those records; and
- (iii) The financial statements are in agreement with the Company's accounting records and returns.



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

Nairobi

19 October 2016

IDB CAPITAL LIMITED

REPORT OF THE ACTING MANAGING DIRECTOR

Introduction

The country and the region faced a number of challenges in 2015/2016 Financial Year that consequently affected the overall economic growth and the operating business environment. The year was also a significant one for IDB as it saw the achievement of many milestones. Ladies and Gentlemen, I am pleased to present to you an overview of activities and initiatives undertaken during the year under review.

Overview of Financial Performance

I am happy to report that the Organization has continued to defy macro-economic turbulence to deliver growth, with profit before tax and exceptional items increasing to KShs 20.8 million up from KShs 6.10 million realized in the previous year. The Organization was able to post growth in the balance sheet characterized by improved asset quality portfolio, loans and advances. The total assets grew during the year to close at KShs 867.5 million up from KShs 847.4 million. Loans and advances to customers reached KShs 571.3 million up from KShs 425.9 million following continued uptake of loans to industrial and commercial investors.

Total income grew to KShs 115.3 million up from KShs 93.3 million on account of higher loan book and favorable rates on money market instruments, while total operating expenses grew to KShs 94.5 million up from KShs 87.2 million. Revenue reserves increased to KShs 44.7 million during the year from KShs 28.5 million recorded in the previous year. This was on account of cumulative profits which were posted during the period.

Operations

The institution relies on interest income from loans given to various projects to support its operations. We are cognizant of the need to continue with austerity measures to control costs and undertake initiatives that will maximize returns. In this regard, we have put in place mechanisms to fast track disbursement of loans already approved and convert the cash balances to higher earning loans and advances while observing prudence in lending to ensure that all advances made are performing and hence maintain the current low level of non-performing loans.

During the year two of the projects financed were affected by the turbulence experienced in the Banking sector. Our efforts to collect from the two projects have been hampered by a court order on the company and its activities. This notwithstanding, I am pleased to inform you that our overall portfolio quality was within industry average by the close of the year. Management will continue to strive to improve on the quality through aggressive debt collection and seeking new business to ensure that the portfolio grows both in volume and quality.

Our commitment for continual performance improvement has paid off. I am glad to report that in May 2016, IDB was regionally recognized for its performance by the Association of African Development Finance Institutions (AADFI) after attaining an A rating in the Association's 2015 peer review of member institutions and was awarded the Best Performing Award 2015 during the meeting held in Lusaka, Zambia.

The Institution's focus in driving efficiency in its business operations and improving quality and service to customers was another one of the key achievements in the year. In April 2016, IDB was ISO 9001:2008 certified after the management system was assessed and certified to have met the requirements of ISO 9001:2008 for the provision of Finance to Commercial and Industrial Concerns.



IDB CAPITAL LIMITED

REPORT OF THE ACTING MANAGING DIRECTOR (CONTINUED)

Strategy Highlights

The Institution was implementing the last year of its reviewed strategic plan focused on a short term period of two years from July 2014 to June 2016. The Strategic Plan had outlined IDB's mandate which is broadly defined as facilitating and supporting industrial development and I am pleased to report that we attained most of the envisaged objectives. During the period, IDB continued to support the creation of new enterprises in the Small Medium Enterprise category in addition to supporting the growth of existing enterprises and this has enabled these enterprises to graduate into large enterprises. The Institution had also supported commercially viable social and commercial enterprises whose projected impact in terms of employment creation was significant. Lastly, during the year, IDB offered finance to the export oriented sectors too.

Resource Mobilization

As a financial institution, IDB relies on interest from loans and advances as the main source of revenue. The Institution has been operating under severe capital constraints which greatly impacted growth of the business. One of the critical issues facing the Institution is availability of lending resources resulting to slow growth of the portfolio and low visibility in the market.

During the year IDB continued to fund its operations from the internally generated resources for short to medium term lending mainly for working capital, project finance and asset finance. Management also continued to follow-up on new lines of credit from among others, the Afrexim Bank, Kenya Government and Government of India to boost its lending resources. By the end of the year, great progress had been made on US\$ 30 million line of credit from Exim Bank of India which upon finalization will enable industrial investors to import eligible goods, equipment and machinery from India to Kenya. This line of credit has since been approved and is awaiting operationalization.

Human Resources

Effective development of the Institution's human resources remains a key strategic objective for IDB. Towards this objective and to support its workforce, the Institution undertook several training and development programmes primarily focused on capacity building across the business based on identified training gaps.

I am happy to report that following an approval from the State Corporations Advisory Committee (SCAC) to hire and in order to support IDB's growth strategy, the Institution recruited six members of staff to fill in various existing vacant positions. 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.

Looking Ahead into the Future

We have challenges in every economic climate, but I believe we have the right initiatives and strategies in place, a strong momentum and an exceptional team to make IDB continue playing its mandate. In the coming year, we continue to look back at our core values and work towards continuously improving and adapting to the interests of our customers. Management will continue to do everything conceivably possible to ensure that the institution remains operational in a manner that addresses its mandate pending the finalization of the merger process.

IDB CAPITAL LIMITED

REPORT OF THE ACTING MANAGING DIRECTOR (CONTINUED)

We have now embarked on the implementation of our 2016-2021 strategy, which is the next phase of growth. This focuses on four strategic thrusts as indicated below:

- Funding with key focus on resource mobilization. To be able to implement the strategy, it is important that the IDB builds adequate capital.
- Loans and Advances with a focus on Industrial and commercial projects lending
- Develop and maintain a competitive and productive workforce and enhancing corporate governance.
- Create and maintain efficient and effective systems and processes to deliver on strategy.

Our ambition for IDB is to achieve significant growth and have demonstrable impact in the economy. The institution will pursue the objectives set out in the new strategic plan on which the performance contract for the period July 2016 – June 2017 will be premised.

Towards this end, we are developing our full service delivery capability to include competitive development products and services. Our unwavering commitment to continue to strengthen the Institution's unique business model through enhanced use of technology for better customer experience and efficiency is still undeterred. The management has commenced the process of installation, implementation and commissioning of a loan management system as one of the initiative for enhancement of technology and processes.

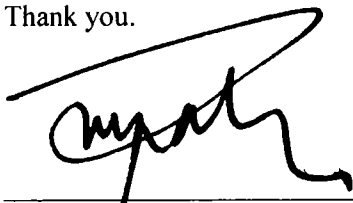
We made considerable progress in 2015/2016 financial year, but there is still a lot to be done to deliver IDB's full potential. As the management team, we have our work cut out for us and are confident that we have chosen a sound strategic direction that will enable us to deliver value to all our stakeholders.

Appreciation

Finally, I would like to express my heartfelt gratitude to the stakeholders that have enabled us to make such immense progress over the years. I not only appreciate the challenges we have, but also the strides that the Board and Management have taken in keeping the Institution's mandate relevant.

On behalf of the management, I extend my deepest gratitude to firstly, our customers, for believing in us and retaining us as their preferred development partners. To our shareholders, we thank you for your support. Lastly, I remain indebted to all employees and the Board of Directors for their commitment and dedication to the Institution throughout the year.

Thank you.



Timothy K. Tiampati
Ag. Managing Director

Date: 22 September 2016



IDB CAPITAL LIMITED

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:

Wilfred Musau (Committee Chairman)
Bernice Gachegu
John Mwendwa (Alternate to PS - Ministry of Industry, Trade & Cooperatives)
Michael M. Kiswili

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:

Jadiah Mwarania (Committee Chairman)
Edward J. G. Gitau
John Paul K. Kenduiywa (retired on 31st May 2016)
Timothy K. 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:

Bernice Gachegu (Committee Chairperson)
John Mwendwa
Geoffrey Kimani (Alternate to CS -National Treasury)
Timothy K. Tiampati



IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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, in Note 29.



IDB CAPITAL LIMITED

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Our Corporate Social Responsibility 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.

During the year, in support of human capital development in Kenya, IDB provided opportunities for skills transfer to Youth graduates through internship and industrial attachment programs. The Institution provided three month internship opportunities to six youths while two others benefitted from a six month apprenticeship program. This notwithstanding, the Institution also carried out sensitization on procurement opportunities to various youth, women and persons with disabilities groups.

Additionally, while carrying out our mandate of financing industrial concerns, our project appraisal process is geared towards ensuring that all projects financed by the Institution are in compliance with the required environment regulations. Lastly, our financing operations have greatly impacted the living standards of Kenyans who directly and indirectly benefit from employment created in funded projects.



IDB CAPITAL LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

The Directors submit their report together with the audited financial statements for the year ended 30 June 2016, which disclose the state of affairs of the Company.

1. Principal activities

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

2. Results

The net profit for the year of KShs 20,804,000 (2015 – KShs 6,105,000) has been transferred to accumulated profits.

3. Dividends

The directors propose a final dividend of KShs 0.01 per share (2015 – KShs 0.29) amounting to a total of KShs 352,079 (2015 – KShs 234,742).

4. Directorate

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

5. Business review

The year ended 30 June 2016 has been a stable year. The Company made a net profit of KShs 20.8 million (2015: KShs 6.1 million). Total income grew by 24% to KShs 115.3 million in 2016 compared to 2015 which stood at KShs 93.2 million. Operating expenses increased by 8% to KShs 94.5 million compared to the year ended 30 June 2015. The costs were significantly higher in the current year due to increase in prices.

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

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



IDB CAPITAL LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

6. Relevant audit information

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

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

7. Auditor

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

KPMG Kenya, who were appointed during the year in place of RSM Ashvir by the Auditor-General, have carried out the audit for the year ended 30 June 2016.

8. Approval of financial statements

The financial statements were approved by the Board of Directors on 22 September 2016.

BY ORDER OF THE BOARD


Secretary

Date: 22 September 2016

