

REPUBLIC OF KENYA



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THE AUDITOR-GENERAL

ON

IDB CAPITAL LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2020**


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IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2020

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DATE: 03 AUG 2021	DAY
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IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020**

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IDB CAPITAL LIMITED

CORPORATE INFORMATION

Background information

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

The shareholders of the Company include the National Treasury, the Industrial and Commercial Development Corporation (ICDC), the Kenya Reinsurance Corporation, National Bank of Kenya and The Kenya National Assurance Company (in liquidation).

Principal activities

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

Mandate

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

Our Vision

Vision of IDB Capital Limited is:

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

Our Mission

Mission of IDB Capital Limited is:

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

Core values

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

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

IDB CAPITAL LIMITED

CORPORATE INFORMATION (CONTINUED)

Registered office & headquarters

18th Floor, National Bank Building
Harambee Avenue
PO Box 44036 – 00100
Nairobi

Corporate contacts

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

Principal Auditor

The Auditor-General
Office of the Auditor General
Anniversary Towers
University Way
PO Box 30084 – 00100
Nairobi

Delegated Auditor

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

Principal bankers

NCBA Bank Kenya PLC
PO Box 30437 – 00100
Nairobi

National Bank of Kenya Limited
PO Box 72866 – 00200
Nairobi

Legal advisors

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

Ashitiva Advocates
Victoria Towers, 1st Floor, PO Box 54556 –
Kilimanjaro Avenue, Upperhill,
PO Box 20631 – 00200
Nairobi
Tel 2376082/2710880

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

Kiptiness & Odhiambo Associates
4th Avenue Towers, 14th Floor
North Wing,
PO Box 42713-00100,
Nairobi
Tel 2713977

Rachier & Amolo Advocates
Mayfair Centre, 5th Floor
Bunche Road, Nairobi
0722204778/0733616662

Masire & Mogusu Advocates
National Bank Building, South Podium 2nd Ralph
Floor, Harambee Avenue, Nairobi
Tel 2210040/0739766095

Kabaru & Company Advocates
3rd Floor, Wing B, Kenya Police Sacco Plaza
Ngara Road
P.O Box 16979 – 00620 Nairobi
Tel 020 2731468

Kamotho Maiyo & Mbatia Advocates
I Kieni Road, Kileleshwa,
P.O. Box 70676-00400, Nairobi
Tel 2627842/0706520331

IDB CAPITAL LIMITED

CORPORATE INFORMATION (CONTINUED)

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

Prof. Michael Bowen	Chairman
Mrs. Karen Kandie	Managing Director
Cabinet Secretary, The National Treasury	Hon. Amb. Ukur Yatani Kanacho
	Alternate: Mr. Mark Ngecho Lugwisa (Appt:4 th Nov 19)
Permanent Secretary, Ministry of Industry Trade & Cooperatives	Dr Francis O. Owino, PhD, CBS
	Alternate: Mr. David Wesonga
National Bank of Kenya Limited	Represented by Mr. Henry Maosa
Industrial and Commercial Development Corporation	Represented by Mr. Edward Gitau
Kenya National Assurance Company (In liquidation)	Represented by Mr. Mark Gakuru
Kenya Reinsurance Corporation Limited	Represented by Mr. Jadhah Mwarania
Mr. Edward Kingi	Independent Director
Ms. Emily Njuki	Independent Director)
Company Secretary	Rebecca Akoth Kinyanjui (Mrs) PO Box 44036 – 00100 Nairobi

IDB CAPITAL LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 30 JUNE 2020**

The Directors submit their report together with the audited financial statements for the year ended 30 June 2020, which disclose the state of affairs of IDB Capital Limited (“the Company”).

1. Principal activities

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

2. Results

The results for the year are shown on page 28. The Company recorded a net profit for the year of KShs 26.51 million (2019 – loss of KShs 47.73 million).

3. Dividends

The directors do not propose payment of a dividend (2019 – Nil).

4. Directorate

The directors who held office during the year and up to the date of this report are set out on page 3.

5. Business review

The year ended 30 June 2020 was a challenging year as the company endeavoured to roll out the Export Import Bank (EXIM) India Line of Credit (LOC) despite the operationalization hitches and depressed general economic activities as a result of the COVID- 19 pandemic. The Company recorded a net profit of KShs 26.51 million (2019 – net loss of KShs 47.73 million). Total operating income increased by 11% to KShs 117.65 million in 2020 mainly due to increase in interest income. The net interest income increased by 18% to KShs 111.31 million due to increase loan disbursed during the current year. The net impairment credit was KShs 9.1 million compared to a charge of KShs 40.77 million in 2019 due to write backs derived from reduced loan impairments during the year. Total operating expenses decreased by 11% to KShs 100.54 million compared to the year ended 30 June 2019 which stood at KShs 113.23 million due to stringent cost cutting measures.

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

Our review of projections for the next financial year indicates that the total revenue will be KShs 215.69 million while the total expenses will be KShs 199.06 million with the projected surplus being KShs 15.80 million. The projections assume that a substantial drawdown from Line of Credit (LOC) from Exim Bank of India amounting to KShs 757.2 million will be made and the available internal funds amounting to KShs 202 million will be disbursed during the year.

IDB CAPITAL LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

5. Business review (continued)

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

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

6. Employees

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

7. Relevant audit information

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

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

8. Auditor

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

KPMG Kenya, who were appointed by the Auditor-General, have carried out the audit for the year ended 30 June 2020.

9. Approval of financial statements

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

28 September 2020.

BY ORDER OF THE BOARD

Kwamei

DIRECTOR

Date: *28th Sept 2020*

IDB CAPITAL LIMITED

CHAIRMAN'S STATEMENT

I am delighted to present to you our Company's Annual Report and Financial Statements for the 2019/2020 year.

You are aware of the recession that is creeping globally due to the impact of the Covid-19 (coronavirus) pandemic. The world is experiencing an unprecedented economic and social disruption that has dampened output and economic growth across all continents. The global, regional and domestic business environment remains difficult and unpredictable as the cost of emergency response to the highly infectious disease escalates.

Like in other countries, Covid-19 has imposed major costs and losses to Kenya's economy. Lives have been lost and health systems are stretched to the limit. The business community has not been spared the contagion effect of the disease. The financial sector has recorded a significant increase in non-performing loans, coupled with a major downturn in commercial borrowing. Small and Medium Enterprises (SMEs) bear the brunt of the heavy cost of emergency regulations that the Government of Kenya has put in place to flatten the curve of the disease. Restriction of the Kenya airspace has affected tourism as well as the flow of imports and exports that are the lifeline of SMEs. Moreover, this sector has suffered from massive income and job losses due to periodic lockdowns and tight regulation of the hospitality industry.

We are optimistic that the economic environment will improve as countries tighten their grip on the coronavirus as scientists' race to find a cure for the contagious disease. The International Monetary Fund (IMF) projects that the global economy will contract by three percent in 2020, with growth prospects for Sub-Saharan Africa being revised downwards from 3.5% to -1.6%. For Kenya, the IMF and World Bank estimate that the GDP growth rate will fall from 5.7% in 2019 to 1-1.5% in 2020. Based on these projections, the future for SMEs is uncertain but the IMF predicts that the coronavirus crisis will start easing during the second half of 2020.

In line with our mandate and strategy, we are committed to assist in cushioning SMEs from the negative impact of the pandemic. We have made significant decisions in the past few months to ensure that SMEs remain afloat and return to normal as the fight against coronavirus progresses. These interventions include accepting requests from existing clients on moratorium extension, principal repayments holiday, full holiday and restructuring of their loans.

These considerations have an impact on IDB's strategic outlook given that our expected income will reduce by 40-60%. We request the Government to consider a budgetary allocation for IDB during the next budget making process. This allocation will go a long way in supporting both our existing and prospective clients with the much-needed cash injection to their business as a post Covid-19 recovery strategy. We are committed, as a Board, to support IDB's management to effectively respond to the current global crisis. We greatly appreciate the efforts of all those employees who in spite of the challenges, delivered outstanding services to our customers and stakeholders over the past year.

Moving forward, we remain steadfast in delivering on our strategy. The Board will continue to support management as they adjust business plans to reflect changes in the needs of our customers in response to the impact of COVID-19. We have faced difficult times before and we emerged stronger. I have no doubt that we will, once again, rise above the current crisis. Together with our shareholders, stakeholders, management and staff we have a unique opportunity to deepen our support to Kenya's economic growth, driven by the Big Four Agenda and Vision 2030.

Thank you.



Prof Michael Bowen, PhD
Chairman – Board of Directors
IDB Capital limited

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES



Prof. Michael Kipyego Bowen
Chairman

Prof. Michael Kipyego Bowen is an Associate Professor of Environment and Economics at Daystar University and currently the chairman of IDB Capital Ltd. He is also the Director for Research, Publications and Consultancy at Daystar University. He was a council member of Daystar University between 2012 and 2014. Between 2013 and 2015, he was the deputy director (Quality Assurance) at Daystar University.

Previously, he was the head of Department of Business Administration at Kenya Methodist University and has been a member of several school boards in Keiyo South Constituency. He has taught at University level for the last 16 years and supervised several masters and PhD students. He has published several articles and book chapters and has attended several international conferences spanning the globe. He was born in July 1969.



Hon. Amb. Ukur Yatani Kanacho
Cabinet Secretary, National Treasury

Hon. Amb. Ukur Yatani Kanacho has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology.

At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others.

Between 1992—2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991. He was born in 1967.

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)



Mr. Mark Ngecho Lugwisa
Alternate to the CS National Treasury

Mr. Mark Ngecho Lugwisa has over 10 years' experience in the Public Sector Finance, having previously worked in the Directorate of Government Accounting and Quality Assurance, the National Treasury & Planning, Departments of National Sub County Treasuries where he served as accountant for 8 years, 4 of which he served as the National Sub County Accountant, Loiyangalani National Sub County Treasury – Marsabit County. These opportunities equipped him with key relevant skills in public resources management. Currently, he serves as the Chief Investment Officer, in the Department of Government Investment & Public Enterprises under the Directorate of Public Investment and Portfolio Management, the National Treasury and Planning.

Prior to joining Public Service, he worked in private sector as an Office Manager, Tax Credit Consulting Ltd (Management Consulting Firm with bias in Tax Planning and Management) and more recently as customer advisor/Lead Generator in Barclays Bank of Kenya/ABSA Bank. His academic and professional qualifications include a bachelor's degree in Business Administration (Accounting Option) from Bugema University, Uganda, and he is currently undertaking his professional training in CPA programmes. He has also attended short-term courses in Senior Management Course, Corporate Governance and five days training in Accounting Skills Management Course. He was born in 1979.



Dr Francis O. Owino, PhD, CBS
Principal Secretary, State Department for
Industrialization




Dr Owino is the Principal Secretary at the State Departments for Industrialization in the Ministry of Industry, Trade and Cooperatives. He holds a Doctor of Philosophy [PhD] in Peace and Conflict Studies from Masinde Muliro University of Science and Technology obtained in 2013, Master of Business Administration [Strategic Management] from Kenya Methodist University, 2008, Bachelor of Arts [B.A] 2nd Class Upper Division, University of Nairobi, 1989.

Some of his previous assignments include; Director, National Cohesion and Values with effect from 8th September 2009 to 14th August 2018 during which he successfully steered the formulation of policies on National Cohesion and National Values as enshrined in the Constitution of Kenya.

Previously, Dr Owino served as Principal Secretary State Department for Public Service in the Ministry of Public Service and Gender. He was born in 1964.




IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mr. David Wesonga Wanjala Alternate to PS Principal Secretary, State Department of Investment and Industry</p>	<p>Mr. David Wesonga Wanjala is Alternate Director to the PS Principal Secretary, State Department of Investment and Industry at IDB Capital Limited. He is the Deputy Director Industries in the State Department for Industrialisation. Previously he served in various positions in the Ministry of Agriculture, Livestock and Fisheries in many parts of the country. These include: Provincial Director of Agriculture, Coast Province, County Director of Agriculture, Kwale County.</p> <p>He has attended various courses both locally and internationally in Strategic Planning, Project Management, Environmental Planning and Financial Management. He holds a Bachelor of Science Degree in Agriculture from the University of Nairobi. He was born in 1960.</p>
 <p>Mr. Mark Gakuru Representing KNAC (In Liquidation)</p>	<p>Mr. Mark Gakuru an Advocate of the High Court of Kenya with over 16 years of legal and administrative experience obtained in both the Private and Public Sectors. He is the Official Receiver and as such is regulator Insolvency practice in Kenya. He holds master's degree in Laws (LL.M) from the University of Nairobi. He was born in 1975.</p>
 <p>Mr. Edward J. G. Gitau Representing Industrial & Commercial Development Corporation (ICDC)</p>	<p>Mr. Edward Gitau is currently a Credit Manager with ICDC where he has worked since 1989. He has over 20 years' experience in project investment analysis, project implementation and investment monitoring. He holds a Bachelor of Arts (Economics & Statistics) and is a Certified Securities & Investment Analyst. He was born on in 1963.</p>




IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mr. Jadhiah Mwarania, OGW Representing Kenya Reinsurance Corporation</p>	<p>Mr. Jadhiah Mwarania is the Managing Director of the Kenya Reinsurance Corporation. He holds a Bachelor of Commerce (B.com.) (Hons.), and Master of Business Administration (MBA) degree from the University of Nairobi and currently is undertaking a PHD in strategic management. He is a Fellow of the Chartered Insurance Institute of London (FCII) and Insurance Institute of Kenya (FIK) and is a Chartered Insurer (CI) of the Insurance Institute of London. He is a Fellow of the Kenya Institute of Management (FMKIM).</p> <p>Mr Mwarania is a Director on the Board of Directors of Zep Re (PTA Reinsurance Company) and the Chairman of the Association of Kenya Reinsurers (AKR), a Board Member of the Insurance Training and Education Trust (ITET) and member of the Finance and Development Committee of the Board of the College of Insurance of Kenya. He was born in 1964.</p>
 <p>Mr. Henry Maosa Representing National Bank of Kenya</p>	<p>Mr. Maosa joined National Bank of Kenya in April 2014 as the Head of Reporting. He rose to the position of Head of Strategy and Projects in March 2015. He was appointed to the position of acting Chief Finance Officer in April 2016, a position he held till October 2016. He was confirmed to the current position of Head of Business Finance in November 2016. Prior to joining the Bank, Henry worked for Standard Chartered Bank where he served in various management capacities. He also worked for the KCB Group. He has over 18 years experience in the finance sector.</p> <p>He holds a Bachelor of Arts degree in Economics and an MBA in Strategic Management, both from the University of Nairobi. He is a Certified Public Accountant of Kenya, CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is also a holder of a higher diploma in computer science from IMIS-UK. He has attended various professional management courses. He was born in 1976.</p>
 <p>Mr. Edward Kingi Independent Director</p>	<p>Mr. Kingi attended Mang'u High School, Moi High School Kabarak and University of Nairobi where he graduated with B.Sc. Agric economics (Hons) in 1990.</p> <p>He did M.Sc. Environmental Science (Pwani) and CPA part II. He worked as a Chief Accountant for over twenty years in the defunct Local Authorities in Kilifi, Kwale and Makeni County Councils before joining the County Government of Kilifi as the director of environment. He worked with Barclays Bank, Credit Finance Corporation and YMCA before joining a local authority. He was born in 1966.</p>

IDB CAPITAL LIMITED

BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>M/s Emily Njuki Independent Director</p>	<p>M/s Emily Njuki is the Lead Property Consultant of Habitat Property Group. Previously she worked as County Executive Committee Member for Education, Youth, Gender and Social Services in the County Government of Embu. She worked as a Commercial Director at Smart Solutions Africa (SSA) and a Brand Manager for L'Oréal East Africa.</p> <p>She holds a Master of Business Administration from Strathmore Business School, Kenya, and a Diploma in Pan-African Module from IESE Business School, Spain. She is a holder of a Bachelor of Science Degree in Food Science and Technology from University of Nairobi, Kenya.</p> <p>Emily is also a founder of Pentrain Capital Limited. She was born in 1985.</p>
 <p>Mrs. Karen Kandie Managing Director</p>	<p>Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as a member of the Capital Markets Tribunal and is a past Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT). Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance & Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PriceWaterhouseCoopers.</p> <p>She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B. Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K) and Certified Financial & Investment Analyst (CIFA). Karen is currently pursuing a Doctorate in Business Administration. She was born in 1968.</p>
 <p>Mrs. Rebecca A. Kinyanjui Chief Legal Officer/ Company Secretary</p>	<p>Mrs. Rebecca Kinyanjui is the Chief Legal Officer / Company Secretary in IDB Capital Limited. She joined as a Senior Legal Officer in August 1988. She previously worked as a State Counsel at the Office of the Attorney General. She holds an LLB (Hons) Degree from the University of Nairobi, a Diploma in Legal Practice. She is a Certified Public Secretary (CPS - K). She was born in 1961.</p>

IDB CAPITAL LIMITED

MANAGING DIRECTOR'S STATEMENT

Introduction

A year that began with a stable outlook for the Kenya economy has ended up being one of the toughest in human history. The impact of the Covid-19 pandemic during the second half of the year has taken a toll on the gains achieved during the first half of our trading year. The global pandemic has affected how businesses operate in terms of their day to day operations and how they avail their solutions to clients.

IDB Capital is no exception. Since the first coronavirus disease case was diagnosed in Kenya on 12th March 2020, our resilience and innovation has been tested to the core. The “business unusual” circumstances in which we find ourselves have exerted pressure on us to devise measures to deliver on our actual targets with reduced physical contact between our staff and our customers.

Covid-19 Impact on our business

COVID-19 has caused significant instability and high volatility in the lending markets. While the full impact is yet to be determined, it is expected that the adverse impact is likely to continue from the contagion effects of the coronavirus disease.

Cognisant of the anticipated impact of the pandemic, the IDB Board and Management developed strategies to cushion our core mandate namely, credit risk, securitization landscape, customer relationship and business continuity management. This ensured we remained resilient during these challenging times.

We have proactively responded to the needs of our clientele, whose businesses have been hard hit by the impact of Covid-19. We have considered and approved requests for extension of repayments tenure, repayment holiday and extended moratorium to 13 clients out of our client portfolio of 26.

Resource mobilization

The Executive Office of the President has communicated its decision to put on hold the proposed merger of IDB Capital, Industrial and Commercial Development Corporation (ICDC) and Tourism Finance Corporation (TFC). As we near the end of our 2016-2021 strategic plan, we continue to build and invest on partnerships that we could leverage on in our resource mobilization. So far, we have made a funding request to the Government of Kenya as we explore other sources. Additional funds will help our clients to survive the impact of Covid-19 and support industrial sector recovery.

Internal processes

During times of crisis, our customers' interaction is likely to trigger an immediate and lingering effect on their sense of trust and loyalty. As millions of people are furloughed and retreat into isolation globally, a primary barometer of our customer experience will be how we deliver experiences and service that meet their evolving needs with empathy, care and concern.

We continue to position ourselves at the forefront of the longer-term shifts in consumer behaviour that results from this crisis. Keeping a real-time pulse on changing customer preferences and rapidly innovating to redesign journeys that matter to a quite different context will lead us through the tough terrain.

Moving forward, we underline our resolve to remain true to our values and IDB's purpose, meet our customers where they are through digital delivery and building of agile capabilities for fluid times.

Procurement disclosure

IDB Capital has strictly complied with the legal framework governing procurement processes in Kenya including the Public Procurement and Assets Disposal Act (2015), Supplies Management Practitioners Act (2007) and other government directives. As at 30 June 20, IDB did not have pending bills.

IDB CAPITAL LIMITED

MANAGING DIRECTOR'S STATEMENT (Continued)

Looking ahead

As the world fights to manage Covid-19, we will endeavour to support our existing and prospective clients in post recovery strategy. Reviewing how we operate in the emerging business environment will go a long way to ensure business continuity with minimal disruption.

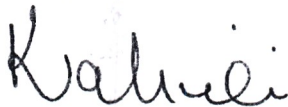
Capitalization remains a big challenge to our operations. With the current crisis affecting 50% of our market who have since approached us with various requests, we urge the Government to consider recapitalizing our institution, to enable us to achieve the critically required financial strength to support Kenya's industrial transformation.

Conclusion

Despite our current challenges, I am optimistic that we will navigate our way through the uncertainty and play a key role in supporting the industrial sector through the post-COVID recovery period and into the next period of growth.

I would like to appreciate the leadership role played by our Chairman and Board of Directors. They are key to our industrial sector support journey. My appreciation is also to the management and staff who worked tirelessly, with vigour and enthusiasm, to deliver solid performance and unwavering determination to steer our business through a turbulent year.

Thank you and God Bless You.



Karen N. Kandie

Managing Director
IDB Capital Limited

IDB CAPITAL LIMITED

MANAGEMENT TEAM



Mrs. Karen Kandie
Managing Director

Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as a member of the Capital Markets Tribunal and is a past Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT). Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance & Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PriceWaterhouseCoopers.

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



Mr. Erastus Njoroge
Chief of Credit





Mr. Njoroge is the Chief of Credit at IDB Capital Ltd. He is responsible for the strategic direction to the institution on all matters relating to Credit Management and Administration. He is an experienced finance expert in the financial services sector with hands on experience on Credit Risk Management, Portfolio Management, Relationship Management, Business Development, Credit Analysis and Banking in general.

Prior to joining IDB Capital Ltd, Erastus was a Credit Manager at Equity Bank in Rwanda. Previously, he held the roles of Senior Credit Analyst at Housing Finance, Credit Analyst at Fina Bank (Currently GT Bank Ltd), Customer relations officer at Afrika Investment bank (AIB) as well as a part time lecturer at various institutions within Nairobi.

He holds a master's degree in Financial Economics as well as a bachelor's degree with specialization in Mathematics and Economics. He also holds professional trainings on advanced Financial Analysis and Relationship Management, Advanced Data Analysis and Financial Modelling, Trade Finance and Risk Management.

IDB CAPITAL LIMITED

MANAGEMENT TEAM (CONTINUED)

 <p>Mrs. Rebecca A. Kinyanjui Chief Legal Officer/Company Secretary</p>	<p>Mrs. Rebecca Kinyanjui is the Chief Legal Officer / Company Secretary in IDB Capital Limited. She joined as a Senior Legal Officer in August 1988. She previously worked as a State Counsel at the Office of the Attorney General. She holds an LLB (Hons) Degree from the University of Nairobi, a Diploma in Legal Practice. She is a Certified Public Secretary (CPS - K). She was born in 1961.</p>
 <p>Mrs. Anne N. Gitau Manager, Finance & Accounts</p>	<p>Mrs. Anne Gitau is the Manager Finance and Accounts and is responsible for overall financial management and accounting functions. She has a wide experience in finance and accounting gained at various levels having joined IDB Capital Limited in May 1991. She is a holder of a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant and Secretary, (CPA-K, CPS- K) and is a member of ICPAK.</p>
 <p>Mrs. Judith A. Omachar Manager, Credit</p>	<p>Mrs. Judith Omachar is the Manager Credit. She is responsible for the day to day credit management functions. She has over 20 years' experience in credit management gained at IDB Capital. She holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K).</p>
 <p>Mr. John Ouko Manager, ICT</p>	<p>Mr. John Ouko is the ICT Manager. He is responsible for the overall Information Technology infrastructure and systems. He has vast experience in computing systems, networks and databases. He holds a Bachelor of Science degree (Computer Science Option) from Maseno University, ongoing Master of Science (Computer Systems) from JKUAT and is Certified in both Microsoft and Cisco platforms (MCSA & CCNA).</p>

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT

Corporate Governance is the structure, rules and processes by which Companies are directed controlled and held accountable. The Board of IDB Capital Limited is committed to the principles of good corporate governance as is stipulated in the “Mwongozo” the code of Governance for State Corporations.

The Board of Directors

The Board comprises ten members. Six of them represent the institutions that are shareholders of the Company; three are Independent and one is executive. The independent Directors are appointed for a period of three years. The Directors do not retire by rotation.

The conduct of the Board is governed by the terms of a Board Charter ensuring that its role is independent from that of management. The Charter covers Board responsibilities, the responsibilities of individual Board members, the conduct of meetings, conflict of interest, Board effectiveness and evaluation, information confidentiality and Board and Management succession among other matters. The Board delegates authority for the management of day to day business to the Managing Director.

Board Diversity

The Board comprises of members with diverse skills including Economists, Accountants and Lawyers.

Board Meetings

The Board work plan and calendar and adequate notice is given for all meetings. The agenda and Board papers are circulated within the stipulated timelines. The Board meets quarterly or more often if business so dictates. During its meetings it considers reports from the Board Committees and matters related to the general strategy of the Company. The Company Secretary is a member of the Institute of Certified Secretaries. She attends meetings of the Board and provides advice on Corporate Governance and compliance issues. The Inspector General State Corporations attends meetings of the Board and its Committees for oversight and advisory purposes in accordance with the State Corporations Act.

The main Board held five regular and two Special meetings during the year attended as follows:-

	Name	Attendance
1	Prof. Michael Bowen	7
2	Mr. Mark N. Lugwisa (Alternate CS Treasury)	4
3	Mr. David W Wanjala (Alternate PS MITC)	7
4	Henry Maosa	7
5	Mark Gakuru	7
6	Jadiah Mwarania	7
7	Edward J. G. Gitau	7
8	Emily Njuki	7
9	Edward Kingi	7
10	Karen Kandie	7

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board Committees

There are three committees of the Board with clear terms of reference that have been set by the Board. The Committees are the Audit, Finance & Investment and HR Committees. The Committee membership details are as follows:

	Director	Status	Committees		
			Audit	Finance & Investment	HR
1	Mr. Mark N. Lugwisa (Alternate CS Treasury)	Non-Executive	✓		
2	Mr. David W Wanjala (Alternate PS MITC)	Non-Executive		✓	✓
3	Henry Maosa	Non-Executive	✓ (C)		
4	Mark Gakuru	Non-Executive	✓		✓ (C)
5	Jadiah Mwarania	Non-Executive		✓ (C)	
6	Edward J. G. Gitau	Non-Executive		✓	
7	Emily Njuki	Non-Executive			✓
8	Edward Kingi	Non-Executive	✓		
9	Karen Kandie	Managing Director		✓	✓

(C) – Chairman/person of Committee

The attendance at Board Committee meetings was as follows:-

		Audit	Finance & Investment	HR
	Number of Meetings	4	6	4
1	Mr. Mark N. Lugwisa (Alternate CS Treasury)	3		
2	Mr. David W Wanjala (Alternate PS MITC)		6	4
3	Henry Maosa	3		
	Mark Gakuru	4		4
4	Jadiah Mwarania		6	
5	Edward J. G. Gitau		6	
6	Emily Njuki			4
7	Edward Kingi	4		
9	Karen Kandie		6	4

IDB CAPITAL LIMITED

CORPORATE GOVERNANCE STATEMENT CONTINUED

Conflict of Interest

The Board members have a statutory duty not to have interests that conflict with those of the company. At all meetings of the full Board and its Committees, an agenda item exists which requires members to make a declaration of any interest they may have in the business under discussion. Board declare the same and exclude himself/herself from any discussion or decision over the subject matter.

Executive Committees

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

Board Evaluation

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

Internal Controls

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

Risk Management

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

Compliance with Laws and Regulations

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

Directors' Benefits and Loans

The directors are entitled to fees and sitting allowances, the details of which have been disclosed in the financial statements, in Note 30. No loans were advanced to Directors during the financial year.

IDB CAPITAL LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

The entity's operational and financial performance

In Financial year 2019/20 IDB Capital Limited posted a profit of KShs 26.51 million against a targeted profit of KShs 5.32 million. The positive budget variance of KShs 23.37 million is made up of a negative variance of KShs 1.45 million in the total revenue and a positive variance in the total expenses of KShs 24.82 million. The negative variance in the revenue levels is mainly due to the non-realisation of the targeted appraisal fees as the loans appraised during the year fell short of what was budgeted resulting in a shortfall of KShs 17.06 million. However, a positive variance was recorded on net interest income of KShs 2.39 million due to the increased level of loan disbursements, net impairment credit of KShs 9.07 million as a result of write back from the IFRS9 impairment assessment on loans & advances. Other write backs recorded a positive variance of KShs 1.07 million and there was also a revaluation surplus arising from the Equity investments that resulted in a positive KShs 2.19 million. The positive variance in the total expenses amounting to KShs 24.82 million was as a result of stringent cost cutting measures that saw both the actual staff and administrative costs fall below the budgeted amounts. The depreciation & amortisation costs were also below the budget as the anticipated capital expenditure was not incurred due to the procurement restrictions imposed by the pending merger.

In the prior year 2018/19 IDB Capital Limited posted a loss of KShs 47.73 million against a targeted loss of KShs 19.5 million. The negative variance of KShs 28.2 million is made up of net balance of a negative variance of KShs 39.5 million in the total income and a positive variance in the total administrative expenses of KShs 11.3 million. The targeted income levels were not achieved as the projected levels of loan disbursements were not realised due to operationalization challenges faced in the roll out of the Line of Credit (LOC).

The statement of financial position size increased from a level of KShs 948.49 million in 30 June 2019 to KShs 1,122.70 million by 30 June 2020. The statement of financial position size increased due to increase in loan disbursements resulting in an increased loan book as well as the profit posted during the year. The Non-Performing loan book levels as at 30 June 2020 was 35.04% (June 2019 :35.63%) compared to the Association of African Development Financial Institutions (AADFI) benchmark of 15%. Efforts are underway to collect the arrears from the projects in stage 3 (default category) as well as concerted effort to grow the loan book which will reduce the Non-Performing Accounts (NPA) ratio.

The projected cash flows for the financial year 2020/21 are positive with the main underlying assumption being that the Line of Credit from India will be substantially drawn and that internal funds will be fully utilised with KShs 850 million and KShs 202 million being disbursed during the year from the LOC and internally generated funds respectively.

During the year ended 30 June 2020, various marketing initiatives such as targeted marketing, leveraging on partnerships with umbrella bodies in target markets, relationship marketing, print and television advertising were undertaken to increase prospective clients for both internally generated funds and for the Exim India Line of Credit (LOC) resulting into additional enquiries, prospects and new approvals during the year. Arising from the initiatives, thirteen (13) projects totalling KShs 521.4 million were approved during the year. The total approvals comprised of KShs 275.2 million from the LOC and KShs 246.2 million from internally generated funds. Of the total approvals, one loan amounting to KShs 79.9 million under the LOC and one loan amounting to KShs 67.9 million from own funds were declined by a client. IDB has so far considered and approved funding requests from six (6) companies in excess of KShs 500 million. Eleven (11) projects whose applications amounts to KShs 697.036 million were under review as at 30th June 2020 and there was a potential pipeline of 11 projects totalling to KShs 364 million. IDB has obtained several approvals for contract inclusion under the line which is a pre-requisite for disbursement.

IDB CAPITAL LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

However, the delay in the processing and refund of the Tax claims which is underpinned in the loan agreement has resulted in a slow draw down on the disbursements from the LOC. The issue has been brought to the attention of The National Treasury for resolution.

Key projects and investment decisions the entity is planning/implementing

The entity had an approved Capital Budget of KShs 12.65 million which was internally generated and was intended mainly for the purchase of a motor vehicle (KShs 8 Million) and the implementation of an ERP (KShs 2.85 million) whilst the balance will be utilized to replace the existing equipment, furniture and fittings, computers and partitions. As at 30 June 2020, only KShs 1.22 million had been expended on Computer hardware and office equipment due to the restrictions on capital expenditure that had imposed due to the pending merger to form Kenya Development Bank (KDB).

Major risks facing the entity

The bank's activities expose it to a variety of financial risks including credit, liquidity and market risks as explained below. The bank's overall risk management policies are set out by the Board and implemented by the management. IDB's business strategy is based on taking of calculated risks in a way that does not jeopardize the direct interests of the different stakeholders. Sound assessment of risk enables us to anticipate and respond to changes in our business environment, as well as make informed decisions under conditions of uncertainty.

— Credit Risk

Credit risk is inherent in the entire portfolio as well as risk on individual loan facility. The risk to IDB could include lost principal and interest, disruption to cash flows and increased collection costs. In the advent of Covid-19, this risk has become inherent necessitating IDB to mitigate the impact by diverse options including adoption of risk sharing covers, considering various request from clients on loan repayment arrangements as well as enforcing strict post-financing projects monitoring.

— Operational Risk

Operational risk occurs due to inadequate or failed internal processes, people and systems. The Loan Management System (LMS) continues to encounter challenges in its operation due to inadequate technical support. IDB also maintains other systems which manages the financial reporting and Human Capital. With these systems operating as stand-alone, there is increase risk in data management as well as increased errors due to the human interventions. On the short term, this risk has been mitigated by ensuring that there are adequate internal controls and separation of duties to ensure that their adequate checks and controls. On the long run, the bank is in the process of upgrading the licence of the current Navision 2016 to Navision 2019, which in term will see all these stand-alone systems integrated into Navision 2019.

— Interest Rate Risk

The capping of the interest rates continues to pose a risk to IDB despite not being regulated by the Central Bank of Kenya as the market forces affect the determination of the lending. IDB interest rates spread were 16-18% p.a. on the loans disbursed before the cap rules but for new projects rate stands at 10- 12% p.a. on LOC loans and 11 – 13% p.a. on the internally generated funds. In view of mitigating this risk, management is actively endeavouring to grow the loan book by drawing down from the India line of credit as well as disbursing the internally generated so as to increase on the volume the loans disbursed which can counter the squeeze on the interest margins.

Material arrears in statutory/financial obligations and the entity's financial probity and serious governance issues

The entity has no material arrears in statutory/financial obligations and has no financial improbity reported.

IDB CAPITAL LIMITED

CORPORATE SUSTAINABILITY, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY STATEMENT

The bank is a going concern and the Board of Directors will continue, in accordance to the Triple Bottom Line Concept, to ensure that it shall continue to meet its financial, social and environmental obligations for long-term sustainability. To maintain this position, The Board and Management have developed fundraising strategies that are meant to ensure that we have the much-needed financial muscle to intervene within the scope of our mandate.

We continue to be a responsible corporate citizen with focus on participation in various initiatives as part of its corporate social strategy and taking responsibility to both its external and internal stakeholders.

In line with the commitment done in the 2020/21 Financial Year as part of the Performance Contracting requirement, the bank continues to collaborate with the Kenya Forestry Service (KFS) through the parent Ministry to plant 1,000 indigenous trees. For the year 2020/2021 Financial Year, the bank has committed KShs 50,000 towards the same initiative.

Notwithstanding that, we lay a lot of emphasis on environmental issues as part of our loan's appraisal process, thereby demanding environmental impact reports on all projects we are considering for funding.

On the internal stakeholders, the bank remains keen on compliance with the Occupational Safety and Health Act 2007. This is achieved through continuous sensitization on safety in addition to initiatives to optimize workplace ergonomics and productivity. The bank continues to undertake random awareness on HIV /AIDS as well as non-communicable diseases – all towards ensuring we have a sustainable healthy workforce.

We have consistently ensured compliance with the 1/3 gender rule, with the current ratio of Female to Male standing at 47%:53% respectively thereby exceeding the minimum threshold of 33%. The bank also takes into consideration the 'Face of Kenya' when conducting recruitment and promotions respectively for various positions in line with the Presidential initiatives on national values.

In line with the Public Procurement and Asset Disposal Act 2015 requirement on preference and reservations, we have ensured that the Access to Government Procurement Opportunities (AGPO), is maintained to above the minimum 30% threshold, and runs initiatives to empower Youth, Women and Persons with Disabilities to better leverage available opportunities. deliberate effort is also made to attract PWDs into employment by sharing information with the National Council of Persons with Disability.

IDB CAPITAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of IDB Capital Limited ("the Company") set out on pages 28 to 91 which comprise the statement of financial position at 30 June 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

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

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

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 28 September 2020.



Prof. Michael Bowen
Chairman



Henry Maosa
Director

Date: 28 September 2020

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

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REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of IDB Capital Limited set out on pages 28 to 92, which comprise the statement of financial position as at 30 June, 2020, and statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by KPMG Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the result of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of IDB Capital Limited as at 30 June, 2020, 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 Kenya Companies Act, 2015.

Basis for Opinion

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

Emphasis of Matter

1.0 Retained Earnings Deficits

The statement of financial position reflects retained earnings deficits of Kshs.62,566,000 for the year ended 30 June, 2020 (2019 – Kshs.89,325,000). Although the Company has posted a profit of Kshs.26,506,000 in the year indicative of improved performance, unless the trend is sustained, shareholders' funds will continue to be eroded.

2.0 Impending Merger

Note 2(c) to the financial statements discloses that on 15 May, 2018, the Cabinet approved the merger of IDB Capital Limited with Industrial and Commercial Development

Corporation and Tourism Finance Corporation. The merger process was to commence in the year 2018/2019 to create Kenya Development Bank (KDB) Limited. The incorporation of Kenya Development Bank (KDB) Limited would then be followed by the dissolution of IDB Capital. However, the process of incorporating Kenya Development Bank Limited had not been completed as at the time of finalizing this audit.

My opinion on these matters is not modified.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor-General's responsibilities for the audit section of my report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key Audit Matters	How the Matter was Addressed
<p>Implementation of IFRS 9, Financial Instruments.</p> <p>IFRS 9, financial Instruments was implemented by the Company on 1 July, 2019. This standard requires recognition of Expected Credit Losses (ECL) on financial instruments which involves making significant judgements and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgments or estimates made are inappropriate. I considered the impairment of loans and advances to customers to be a key audit matter due to the following:</p>	<p>Based on my risk assessment and industry knowledge, I have examined the impairment charges for loans to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.</p> <p>My audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> ▪ Selecting a sample of facilities from the Company's loan book and performing tests to establish whether significant facilities are correctly classified and valued based on IFRS;

Key Audit Matters	How the Matter was Addressed
<p data-bbox="193 322 842 358">Significant Increase in Credit Risk (SICR)</p> <p data-bbox="193 389 842 568">The criteria selected to identify a SICR are highly judgmental and can materially impact the ECL recognized for certain portfolios as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.</p> <p data-bbox="193 600 842 636">Model Estimations</p> <p data-bbox="193 667 842 949">Inherently, judgmental modeling is used to estimate ECLs which involves determining Probabilities of Default (PD), Loss Given Default (LGD), and Exposures at Default (EAD) and ultimately the Expected Credit Loss (ECL). The LGD model used in the loan portfolio contains significant judgmental aspect of the entity's ECL modeling approach.</p> <p data-bbox="193 981 842 1016">Disclosure Quality</p> <p data-bbox="193 1048 842 1218">The disclosures regarding the Company's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.</p>	<ul style="list-style-type: none"> <li data-bbox="850 322 1394 712">▪ Performing credit assessment on various categories of loans to ascertain the reasonableness of the forecast of recoverable cash flows, realization of collateral, and other sources of repayment for defaulted loans. I compared key assumptions to progress against business plans and my own understanding of the relevant industries and business environments; <li data-bbox="850 743 1394 810">▪ Evaluating the appropriateness of the SICR criteria used; <li data-bbox="850 842 1394 1093">▪ Testing the impairment calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) were determined by considering local economic/portfolio factors; and <li data-bbox="850 1124 1394 1276">▪ Assessing whether the disclosers appropriately reflect key judgements and assumptions used in determining the expected credit losses.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report and financial statements but does not include financial statements and our auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-Monitoring of Client Transactions

Section 44(1) of the Proceeds of Crime and Anti-Money Laundering Act No.9 of 2009 requires a reporting institution to monitor on an ongoing basis all complex, unusual, suspicious, large or such other transactions as may be specified in the regulations, whether completed or not, and shall pay attention to all unusual patterns of transactions, and to insignificant but periodic patterns of transactions which have no apparent economic or lawful purpose as stipulated in the regulations. However, IDB Capital Limited does not have a mechanism for monitoring of client transactions.

To the extent, it is in breach of Law and makes the Company susceptible to penalties and fines.

2.0 Compliance with the Dollar Credit Agreement Provisions

Section 3.1(e) of the Dollar Credit Agreement between the Government of the Republic of Kenya (GoK) and the Export-Import Bank of India requires the borrower (GoK) to confirm to Exim Bank that eligible goods and services shall be exempt from all kinds of taxes and duties levied in the borrower's country to the seller in relation to the execution of the contract in the borrower's country. However, review of the Company's borrowing records and agreements indicates that one of its beneficiaries under the Dollar Agreement Line of Credit (LoC) paid taxes for imported machinery during the year contrary to the agreement provisions. It was also noted that the Company was experiencing challenges in obtaining tax exemption for other beneficiaries under the LoC arrangement.

In the circumstance the Company is in breach of the signed agreement.

3.0 Non-Compliance with AADFI Recommendation

IDB Capital Limited is a member of the Association of African Development Finance Institutions (AADFI) that provides recommended ratios and limits to its members on various metrics. For instance, a limit of 15% relating to ratio of total non-performing accounts (TNPA) to the total loan portfolio is recommended. From our review however, IDB's TNPA ratio as at 30 June, 2020 stood at 39.64% which exceeded the AADFI recommended threshold.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Non-Integrated Systems

The Loan Management System (LMS) and the Navision Accounting Systems used by the Company are not integrated. Consequently, transfer of data between the two systems requires manual intervention which are susceptible to errors and manipulations. Further, the Loan Management System (LMS) does not have an auto archiving functionality, necessitating historical monthly loan data to be maintained in hard copies, as the system overwrites them.

2.0 Undocumented Policies and Procedures

Mwongozo Code of Governance for State Corporations guidelines stipulates requirements for company operations namely; policies on risk management, internal controls, enhancing corporate reputation and image and stakeholder relationship management. The code also requires the Company to addresses issues of Board effectiveness, transparency, disclosure, accountability, risk management, internal controls, ethical leadership and good corporate citizenship. However, the Company did not avail a Risk Management Policy and documented internal control procedures.

3.0 Lack of IFRS 9 Policy Governance and Controls Framework

During the year under review, IDB operated without an approved IFRS 9 Policy Governance and Controls Framework. IFRS 9 policy ought to provide details of the model design, management judgments and assumptions applied in the Expected Credit Losses (ECL) model for purposes of guiding the development, use and changes to the model and obtaining Executive Management and Board approval over the IFRS 9 model. Additionally, the governance framework would provide guidance to the Company on the process of data input validation, model validation, approval and change. This framework should be developed and owned by those charged with governance to ensure appropriate oversight over the model. Instead it operates using a draft assumptions sheet that has not been approved.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Kenya Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

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

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

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

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

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

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

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

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

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Nancy Gathungu

AUDITOR-GENERAL

Nairobi

05 July, 2021

IDB CAPITAL LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 KShs'000	2019 KShs'000
Net interest income	6	111,312	94,025
Non-interest income	7	4,767	7,166
Other operating income	8	<u>1,566</u>	<u>5,096</u>
Total operating income		<u>117,645</u>	<u>106,287</u>
Other Income			
Net impairment gain/(loss) on financial instruments	9	9,074	(40,770)
Other income/(expenses)	10	<u>324</u>	<u>(14)</u>
Total other income		<u>9,398</u>	<u>(40,784)</u>
Net income		<u>127,043</u>	<u>65,503</u>
Operating expenses			
Staff costs	11	(59,406)	(62,751)
Administrative expenses	11	(28,415)	(37,157)
Other premise expenses	11	(5,195)	(10,198)
Depreciation and amortisation	11	<u>(7,521)</u>	<u>(3,124)</u>
Total operating expenses		<u>(100,537)</u>	<u>(113,230)</u>
Profit/(loss) before tax	12	26,506	(47,727)
Tax expense	13	-	-
Profit/(loss) for the year		<u>26,506</u>	<u>(47,727)</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Equity investments at FVOCI – net change in fair value	19	2,921	1,382
Related tax	23	<u>(731)</u>	<u>(414)</u>
Other comprehensive income, net of tax		<u>2,190</u>	<u>968</u>
Total comprehensive income for the year		<u>28,696</u>	<u>(46,759)</u>
Basic and diluted earnings per share (KShs)	14	<u>0.65</u>	<u>(1.18)</u>


The notes set out on pages 33 to 91 form an integral part of these financial statements.

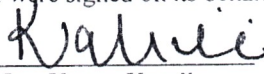
IDB CAPITAL LIMITED


STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

ASSETS	Note	2020 KShs'000	2019 KShs'000
Current assets			
Cash and bank balances	15	7,934	2,571
Deposits with financial institutions	16	199,483	233,013
Loans and advances to customers	17(e)	244,354	120,496
Current tax recoverable	13(b)	34,298	31,794
Other assets	18	<u>4,657</u>	<u>3,705</u>
		<u>490,726</u>	<u>391,579</u>
Non-current assets			
Loans and advances to customers	17(e)	588,903	523,117
Financial assets (unquoted)	19	32,388	29,177
Property and equipment	21	2,875	3,820
Intangible assets	22	375	791
Right of use asset	29	<u>7,432</u>	<u>-</u>
		<u>631,973</u>	<u>556,905</u>
TOTAL ASSETS		<u>1,122,699</u>	<u>948,484</u>
LIABILITIES AND EQUITY			
Current liabilities			
Deferred tax liability	23	1,145	414
Other liabilities	24	16,483	14,464
Lease liability	29	<u>4,967</u>	<u>-</u>
		<u>22,595</u>	<u>14,878</u>
Non-current liabilities			
Long term loan	25	347,150	212,980
Lease liability	29	<u>3,379</u>	<u>-</u>
		<u>350,529</u>	<u>212,980</u>
Total liabilities		<u>373,124</u>	<u>227,858</u>
Shareholders' funds			
Share capital	26	810,020	810,020
Fair value reserve		2,121	(69)
Retained earnings deficit		<u>(62,566)</u>	<u>(89,325)</u>
Total equity		<u>749,575</u>	<u>720,626</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,122,699</u>	<u>948,484</u>

The financial statements on pages 28 to 91 were approved and authorised for issue by the board of directors on ^{28th} Sept 2020 and were signed on its behalf by:


Prof. Michael Bowen
Chairman


Mrs. Karen Kandie
Managing Director


Henry Maosa
Director

The notes set out on pages 33 to 91 form an integral part of these financial statements.

IDB CAPITAL LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	Share capital KShs '000	Fair value reserve KShs '000	Accumulated losses KShs '000	Total equity KShs '000
At 1 July 2019		810,020	(69)	(89,325)	720,626
Prior year adjustment	32	-	-	253	253
Adjusted balance at 1 July 2019		810,020	(69)	(89,072)	720,879
Total comprehensive income for the year					
Profit for the year		-	-	26,506	26,506
Net change in equity investments at FVOCI, net of deferred tax	19	-	2,190	-	2,190
Total comprehensive income for the year			2,190	26,506	28,696
Balance at 30 June 2020		810,020	2,121	(62,566)	749,575
At 1 July 2018		810,020	(1,036)	(41,598)	767,386
Total comprehensive income for the year					
Loss for the year		-	-	(47,727)	(47,727)
Net change in equity investments at FVOCI, net of deferred tax	19	-	967	-	967
Total comprehensive income for the year			967	(47,727)	(46,760)
Balance at 30 June 2019		810,020	(69)	(89,325)	720,626

The notes set out on pages 33 to 91 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 KShs'000	2019 KShs'000
Operating activities			
Cash used in operations	27	(153,503)	(168,787)
Taxation paid	13(b)	(2,504)	(3,214)
Net cash used in operating activities		(156,007)	(172,001)
Investing activities			
Purchase of property and equipment	21	(1,219)	(900)
Dividends received		<u>586</u>	<u>511</u>
Net cash used in investing activities		(633)	(389)
Financing activities			
Payment of lease liability	29	(5,697)	-
Proceeds from borrowings	25	<u>134,170</u>	<u>212,980</u>
Net cash generated from financing activities		<u>128,473</u>	<u>212,980</u>
(Decrease)/increase in cash and cash equivalents		(28,167)	40,590
Cash and cash equivalents at beginning of the year		<u>235,584</u>	<u>194,994</u>
Cash and cash equivalents at end of the year	28	<u>207,417</u>	<u>235,584</u>

The notes set out on pages 33 to 91 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2020

	Original Budget KShs '000	Final Budget KShs '000	Actual on comparable basis KShs '000	Performance difference KShs '000	Explanation
Revenues					
Net interest income	108,920	108,920	111,312	2,392	Net increase in interest income from deposits and reduction in the interest expense on LOC.
Non-interest income	21,823	21,823	4,767	(17,056)	The loan appraised fell below the budget due to the slow uptake of Line of Credit (LOC) coupled with the hampered economic condition due to COVID-19 pandemic.
Other operating income	500	500	1,566	1,066	Write back from over accrued expenses from the prior year
Net impairment (loss)/gain on loans and advances	(564)	(564)	9,074	9,638	Net of write back from loans & advances impairment and bad debts expense on suspended interest & penalty on Non-Performing Accounts
Other income	-	-	324	324	Exchange gain on foreign denominated accounts
Net fair value gain on equity revaluation	-	-	2,191	2,191	Revaluation of Equity Investments
Total revenues	130,679	130,679	129,234	(1,445)	
Operating expenses					
Staff costs	69,440	69,440	59,406	(10,034)	Budgeted item/activities like employment of more staff not undertaken as well as senior staff exit without immediate replacement.
Administrative expenses	51,509	51,509	33,610	(17,899)	Most of the expenses were below budget due to stringent cost measures and lower levels of operations.
Depreciation and amortisation	4,404	4,404	7,521	3,117	Net of CAPEX not undertaken due to merger restrictions resulting in less depreciation and increase in amortisation on right-of-use asset
Total expenses	125,353	125,353	100,537	(24,816)	
Surplus/deficit	5,326	5,326	28,697	23,371	

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020**

1. REPORTING

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

This is the first set of the company's annual financial statements in which IFRS 16 Leases have been applied. Changes in these accounting policies are described in Note 3.

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

(b) Basis of measurement

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

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

2. BASIS OF PREPARATION (Continued)

(c) Going concern

The Company recorded a net profit of KShs 26.51 million for the year ended 30 June 2020 (2019 – loss of KShs 47.73 million) and, as of that date the Company had accumulated losses of KShs 62.57 million (2019 – KShs 89.33 million). The Company's liquidity position is adequate to cover maturing obligations in the foreseeable future.

On 15 May 2018, the Kenyan Cabinet approved the merger process of three financial institutions, namely IDB Capital Ltd, the Industrial and Commercial Development Corporation, and the Tourism Finance Corporation to create the Kenya Development Bank Ltd (KDB). However, the Executive Office of the President by Executive Order No. 5 of 2020, issued on 7th August 2020 directed that ICDC on behalf of the National Treasury is vested with the mandate of coordinating the management of the State's investments in Ports, Rail and Pipeline services. ICDC, KPA, KRC and KPC are supposed to enter into a Framework Agreement to anchor and integrate their operations towards establishing the Kenya Transport and Logistics Network. While releasing the Executive Order, the Executive Office of the President also communicated its decision to postpone the proposed merger. IDB will now refocus in executing its mandate and map out a new strategy with emphasis on resource mobilisation since the current plan is set to end in June 2021. Consequently, on 16th September 2020, the Ministry of Industrialization, Trade and Enterprise Development requested the Executive Office of the President to consider recapitalisation and funding IDB to enable it to fulfil its role and the additional role of supporting SMEs during the COVID-19 pandemic and the post COVID-19 recovery.

On the basis of the above developments, the Directors have prepared these financial statements on a going concern basis.

(d) Functional and presentation currency

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

(e) Use of estimates and judgements

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

Revenue is derived substantially from interest earned from loans and advances to customers and bank fixed 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 income and dividend income are set out in below:

(i) *Net interest income*

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

(ii) *Fee income*

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

(iii) *Dividend income*

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

(b) Translation of foreign currencies

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Offsetting

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

(d) Income taxes

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

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

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

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

(d) Share capital

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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.

(f) 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.

(g) Financial assets and financial liabilities

Financial instruments include balances with banks, loans and advances to customers, other receivables, related parties, borrowings, equity investments and other liabilities.

a. Financial assets

(i) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the company calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the profit or loss account.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

a. Financial assets (continued)

(ii) Interest income and expense

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

- (a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- (b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

(iii) Recognition

The Company initially recognises loans and advances, trade receivables, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the Company becomes a party to the contractual provision of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(iv) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(iv) Classification – continued

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(iv) Classification – continued

Business model assessment - continued

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

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

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

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

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(iv) Classification – continued

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in non-interest income in the Statement of profit or loss and other comprehensive income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of profit or loss and other comprehensive income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of profit or loss and other comprehensive income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(iv) Classification – continued

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

- (i) Are held for trading purposes;
- (ii) Are held as part of a portfolio managed on a fair value basis; or
- (iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Bank upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the statement of profit or loss.

Equity instruments

The Company has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the Statement of Profit or Loss and Other Comprehensive Income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal. Consequently, there is no review required for impairment. Dividends will normally be recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Reclassifications

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

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(v) Impairment of financial assets

The Company recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets (amortised cost and FVOCI) including debt instruments, loans and advances and trade receivables from Bancassurance.
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds, and loans and advances to banks; and
- other financial instruments (other than lease receivables) on which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since their initial recognition i.e. stage 1 (see Note 5(a)).

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(v) Impairment of financial assets – continued

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Significant Increase in Credit Risk (SICR)

At each reporting date, the Company performs both qualitative and quantitative assessments whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessment for SICR is largely determined by the Prudential Guidelines classification augmented by macroeconomic outlook, management judgement, and delinquency and monitoring.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include a significant departure from the primary source of repayment, changes in adjudication criteria for a particular Company of borrowers; changes in portfolio composition; and legislative changes impacting certain portfolios.

With regards to delinquency and monitoring, there is a rebuttable presumption that delinquency backstop when contractual payments are more than 30 days past due.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date (stage 1 and 2)*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date (stage 3)*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Company expects to recover. See also Note 5(a).

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(v) Impairment of financial assets – continued

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(g)a(vi) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered impaired. In addition, a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(v) *Impairment of financial assets – continued*

Government securities (debt instruments)

In making an assessment of whether an investment in sovereign debt (government bills and bonds, balances due from central banks) is credit-impaired, the Company considers the following factors;

- (i) The country's ability to access own local capital markets for new debt issuance;
- (ii) The respective government ability to maintain sovereignty on its currency; and
- (iii) The intentions and capacity, reflected in public statements, of governments and agencies honor these commitments.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

a. Financial assets (continued)

(vi) De-recognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (continued)

b. Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(i) *Modifications of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3(g)(v).

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(ii) *Offsetting of financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Company as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Company has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases (continued)

Company as a lessee (continued)

Policy applicable from 1 July 2019 – continued

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets;
- and
- the arrangement had conveyed a right to use the asset.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases (continued)

Company as a lessee

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(i) Post-employment benefit obligations

(i) *Defined benefit scheme*

The Company's does not have a defined benefit scheme.

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

(ii) *Statutory defined contribution plan*

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

(iii) *Termination benefits*

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Post-employment benefit obligations - continued

(iv) Short term employee benefits

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

(v) Gratuity

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

(j) Property and equipment

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

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

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets

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

(l) Impairment of non-financial assets

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

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

(m) Cash and cash equivalents

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

(n) Provisions

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

(o) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off-balance sheet transactions and disclosed as contingent liabilities as disclosed in Note 31. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit and loss account in the year in which it is determined.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Comparatives

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

(q) New standards, amendments and interpretations

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

The Company has adopted the following new standards and amendments during the year ended 30 June 2020, including consequential amendments to other standards with the date of initial application by the Company being 1 July 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
— IFRS 16 Leases	1 January 2019
— IFRIC 23 Uncertainty over income tax treatments	1 January 2019
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— Annual improvements cycle (2015-2017)	1 January 2019
— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

— *IFRS 16 Leases*

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

- previously, the Company determined at contract inception whether an arrangement
- is or contains a lease under IFRIC 4.
- Determining whether an Arrangement contains a Lease.

The Company now assesses whether a contract is or contains a lease based on the definition of a lease. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases – continued*

Company as a lessee

As a lessee, the Company leases *office premises*. The Company previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases – continued*

Impact on financial statements

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities

Company as a lessee

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted- average rate applied is 13.5%.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered (or changed) on or after 1 January 2019.

Company as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand- alone price.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases - continued*

Company as a lessee – continued

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases – continued*

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(i) *Impact on transition*

The company has presented right of use assets that do not meet the definition of investment property within "Property plant and Equipment" i.e. the same line item in which it presents underlying assets of the same nature it owns.

On transition to IFRS 16, the Company recognised additional right-of-use assets, and additional lease liabilities. The impact on transition is summarised below:

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases – continued*

	1 July 2019 KShs'000
Right-of-use assets – (Note 29)	12,373
Lease liabilities (Note 29)	12,373
When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 13.5% per annum.	
	1 July 2019 KShs'000
Operating lease commitments at 30 June 2018 as disclosed under IAS 17 in the Company's financial statements	23,225
Discounted using the incremental borrowing rate at 1 July 2019	14,838
Lease liabilities recognised at 1 July 2019	12,373

Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within property and equipment.

	2020 Company KShs'000
Balance at 1 July 2019	-
Recognition of right of use asset	12,373
Additions	-
Depreciation charge for the year	(4,941)
Translation difference	-
Balance at 30 June 2020	7,432

At 30 June 2019, the future minimum lease payments under non-cancellable operating leases were payable as follows.

Maturity analysis – Contractual undiscounted cash flows

	Company KShs'000
Total comprehensive income	
Less than one year	5,697
Between one and five years	9,141
More than five years	-
Total undiscounted lease liabilities at 30 June	14,838

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *IFRS 16 Leases – continued*

Lease liabilities

Included in other liabilities (Note 29) are lease liabilities as at 30 June 2020 amounting to KShs 8.34 million.

Amounts recognised in profit or loss

2020 - Leases under IFRS 16

	Company KShs'000
Interest on lease liabilities (Note 29)	1,670
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
	<u>1,670</u>

2019 - Operating leases under IAS 17

Lease expense	23,225
Contingent expense	-
	<u>23,225</u>

Amounts recognised in statement of cash flows

Interest on lease liabilities	1,670
Payment of lease liabilities	<u>(5,697)</u>
Total cash outflow for leases	<u>(4,027)</u>

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

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

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

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

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

The new Standard is effective for annual periods beginning on or after 1 January 2019.

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

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

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

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

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

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

— *Annual improvement cycle (2015 – 2017) – various standards*

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

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

— *I Annual improvement cycle (2015 – 2017) – various standards – continued*

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Company's financial statements.

— *IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the Company.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (continued)

(i) *New standards, amendments and interpretations in issue but not yet effective*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2020, and have not been applied in preparing these financial statements.

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

New standards or amendments	Effective for annual period beginning or after
— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
— Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
— COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
— Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
— IFRS 17 Insurance Contracts	1 January 2023
— Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
— Amendments to IFRS 17	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Critical accounting estimates and assumptions

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

(i) *Measurement of expected credit losses (ECL)*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

(ii) *Carrying value of unquoted equity investments*

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

(iii) *Taxation*

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

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

(a) Critical accounting estimates and assumptions (continued)

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

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

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

Risk management framework

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

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.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED)

Risk management framework (continued)

The Company has exposure to the following areas in use of financial instruments;

(a) Credit risk

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

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

The risk that the counterparties 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 counterparty.

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

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

	2020	2019
	KShs'000	KShs'000
<i>Carrying amount:</i>		
Loans and advances to customers - net (Note 17)	833,257	643,613
Deposits with financial institutions (Note 16)	199,483	233,013
Interest receivable on deposits (Note 18)	2,841	1,849
Cash at bank (Note 15)	<u>7,925</u>	<u>2,552</u>
Total	<u>1,043,506</u>	<u>881,027</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk (continued)

Loans and advances to customers

The maximum exposure to credit risk from loans and advances to customers is KShs 833,257 million (2019 – KShs 643.6 million), which is 74% of total financial assets (2019 – 73%).

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 aligns the classification of assets that are past due or impaired in line with the Central Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into five categories as follows:

Category	Days past due	IFRS 9 Stage allocation
Normal	0	Stage 1
Watch	1-30	Stage 2
Substandard	31-60	Stage 3
Doubtful	61 - 90	Stage 3
Loss	Over 90 or considered uncollectible	Stage 3

Loans and advances less than 30 days past due date are not considered to be impaired unless other information is available to indicate otherwise.

Loans and advances are summarised as follows:

	2020 KShs'000	2019 KShs'000
Neither past due nor impaired	77,750	437,500
Past due but not impaired	521,950	64,149
Individually impaired	<u>377,479</u>	<u>294,735</u>
Gross loans and advances	977,179	796,384
Less: allowance for impairment (Note 17)	<u>(143,922)</u>	<u>(152,771)</u>
Net loans and advances	<u>833,257</u>	<u>643,613</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk (continued)

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 stage 3 in the Company's internal credit risk and grading system.

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.

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.

The Company holds collaterals against loans and advances to customers in the form of a mortgage interests over property, other registered securities over assets, and guarantees. The fair value of collateral held against impaired loans is KShs 592.9 million at 30 June 2020 (2019 – KShs 570.5 million)

(b) Liquidity risk

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

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

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

The liquidity ratio at the balance sheet date was:	2020	2019
At 30 June	918%	1628%
Average for the year	1257%	1723%
Highest for the year	1632%	1928%
Lowest for the year	1125%	1279%

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk - continued

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.

At 30 June 2020	Up to 1 month KShs'000	1 – 3 Months KShs'000	3 - 12 months KShs'000	1 - 5 years KShs'000	Total KShs'000
Financial liabilities					
Other liabilities	447	8,133	4,816	3,091	16,487
Lease liability	-	-	4,967	3,379	8,346
Long term loan	-	-	-	347,150	347,150
Total financial liabilities	447	8,133	9,783	353,620	371,983
At 30 June 2019					
Financial liabilities					
Other liabilities	135	5,775	8,554	-	14,464
Long term loan	-	-	-	212,980	212,980
Total financial liabilities	135	5,775	8,554	212,980	227,444

(c) Market risk

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

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

(i) Interest rate risk

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	Effective interest rate	Interest bearing KShs'000	Non-interest bearing KShs'000	Total KShs'000
At 30 June 2020				
Assets				
Cash in hand		-	9	9
Bank deposits and balances	7.4%	199,483	7,925	207,408
Loans and advances to customers	12.3%	741,091	92,166	833,257
Equity investments (unquoted)		-	32,388	32,388
Other assets		-	4,657	4,657
At 30 June 2020		940,574	137,145	1,077,719
Other liabilities				
Long term loan	4%	347,150	-	347,150
At 30 June 2020		347,150	16,487	363,637
Interest rate sensitivity – 2020		593,424	120,658	714,082
At 30 June 2019				
Assets				
Cash in hand		-	20	20
Bank deposits and balances	8%	233,013	2,551	235,564
Loans and advances to customers	15%	551,447	92,166	643,613
Equity investments (unquoted)		-	29,177	29,177
Other assets		-	35,499	35,499
At 30 June 2019		784,460	159,413	943,873
Other liabilities				
Long term loan	4%	212,980	-	212,980
At 30 June 2019		212,980	14,464	227,444
Interest rate sensitivity – 2019		571,480	144,949	716,429

A change of 1 % in interest rates would have increased or decreased profit or loss by KShs 6.9 million (2019 – KShs 6.7 million). The Company's operations are subject to the risks of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest-bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Company's business strategies.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

Assets	2020			2019		
	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000
Cash in hand	9	-	-	20	-	-
Bank deposits and balances	207,408	(2,074)	2,074	235,565	(2,356)	2,356
Loans and advances to customers	833,257	(8,333)	8,333	643,613	(6,436)	6,436
Equity investments (unquoted)	32,388	-	-	29,177	-	-
Other assets	38,955	-	-	35,499	-	-
	1,112,017	(10,407)	10,407	943,874	(8,792)	8,792
Equity and liabilities						
Other liabilities	16,489	-	-	14,464	-	-
Long term loan	347,150	3,472	(3,472)	212,980	2,130	(2,130)
	363,639	3,472	(3,472)	227,444	2,130	(2,130)
Net interest income increase/(decrease)		(6,935)	6,935	-	(6,662)	6,662
Tax charge at 25%		1,734	(1,734)		1,999	(1,999)
Impact on profit or loss after tax		(5,201)	5,201	-	(4,663)	4,663

(ii) Currency risk

The Company is exposed to currency risk through transactions in foreign currencies. The entity's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit and loss account. In respect of monetary assets and liabilities in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Company is exposed to as at 30 June 2020 and 30 June 2019.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(ii) Currency risk – continued

The significant currency positions are detailed below:

At 30 June 2020	USD KShs'000	Euros KShs'000	Total KShs'000
Assets			
Cash and balances with banks	720	5	725
Equity investment (Afridi)	29,079	-	29,079
Total assets	29,799	5	29,804
At 30 June 2019			
Assets			
Cash and balances with banks	196	6	202
Equity investment (Afrexim)	25,868	-	25,868
Total assets	26,064	6	26,070

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, profit or loss before tax would have decreased by KShs 3.8 million (2019 – KShs 2.6 million). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

(d) Operational risk

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

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. 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
- procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Operational risk (continued)

- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

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

(e) Capital management

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

(f) Compliance and regulatory risk

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

	2020	2019
	KShs'000	KShs'000
6. NET INTEREST INCOME		
Interest income on loans	105,457	74,465
Interest income on staff loans	950	1,109
Interest income on fixed deposits	16,704	21,421
liability interest expense (Note 29)	(1,670)	-
Interest expense on EXIM India Line of Credit	(10,129)	(2,970)
	<u>111,312</u>	<u>94,025</u>
7. NON-INTEREST INCOME		
Rescheduling fees	102	-
Appraisal fees	4,665	7,166
	<u>4,767</u>	<u>7,166</u>
8. OTHER OPERATING INCOME		
Dividend income	586	511
Write backs- loans	450	-
Write back -debtors	530	4,585
	<u>1,566</u>	<u>5,096</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	KShs'000	KShs'000
9. NET IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
Net (decrease)/increase in provision charged to profit or loss (Note 17(b))	(8,849)	40,116
Cash at bank	68	1
Deposits	(288)	656
Other assets	(5)	(3)
	<u>(9,074)</u>	<u>40,770</u>
10. OTHER INCOME		
Foreign exchange gain/(loss)	314	(17)
Miscellaneous income receipt	10	3
	<u>324</u>	<u>(14)</u>
11. OPERATING EXPENSES		
Employee benefits expense:		
Employment:		
Salaries and wages	46,040	49,226
Staff and other expenses	6,641	6,908
Staff medical	4,046	4,500
Staff training	673	1,009
Gratuity	2,006	1,108
Total employment costs	<u>59,406</u>	<u>62,751</u>
The average number of persons employed by the Company during the financial year was 18 (2019 – 20). 6 employees were management (2019 – 6) and 12 employees were non-management (2019 – 14).		
	2020	2019
	KShs'000	KShs'000
Administrative expenses:		
Non-executive directors' remuneration:		
– Fees and allowances (Note 30 (b))	6,756	7,774
Security expenses	627	582
Office cleaning and maintenance	687	792
Subscriptions	1,152	1,293
Advertising, publicity and donations	1,355	3,256
Insurance	346	333
Audit fees – Auditor-General	447	221
Audit fees – KPMG	2,400	2,212
Professional services	6,001	9,731
Vehicle running and maintenance	846	694
Telephone, internet and postage expenses	2,027	2,070
Travelling and entertainment	3,303	5,396
Printing and stationery	319	587
Licenses	216	175
Bank charges	169	178
Repairs and maintenance	703	559
Other expenses	1,061	1,304
Total administrative expenses	<u>28,415</u>	<u>37,157</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

11.	OPERATING EXPENSES (Continued)	2020	2019
	Administrative expenses: (continued)	KShs'000	KShs'000
	Other premises expenses:		
	Service charge	3,966	8,945
	Parking fees	<u>1,229</u>	<u>1,253</u>
	Total other premises expenses	<u>5,195</u>	<u>10,198</u>
	Depreciation and amortisation:		
	Amortisation of intangible assets	417	417
	Depreciation and write offs of property and equipment	2,163	2,707
	Right-of-use asset (Note 29)	<u>4,941</u>	<u>-</u>
	Total depreciation and amortisation expenses	<u>7,521</u>	<u>3,124</u>
12.	PROFIT/(LOSS) BEFORE TAX		
	(a) Items charged		
	The following items have been charged in arriving at loss before tax:		
		2020	2019
		KShs'000	KShs'000
	Directors' remuneration:		
	- Salary	10,264	9,986
	- Fees and allowances (Note 30(b))	6,756	7,774
	Employee benefits expense (Note 12(b))	4,131	3,922
	Depreciation of property and equipment (Note 21)	2,164	2,707
	Amortisation of intangible assets (Note 22)	416	417
	Other premises costs	5,195	10,198
	Net foreign exchange gain/(loss)	314	(17)
	Auditor's remuneration (Auditor-General and KPMG)	<u>2,847</u>	<u>2,433</u>
	(b) Employee benefits expenses		
	The following items are included in employee benefits expense:		
	Defined contribution scheme	4,075	3,866
	National Social Security Fund	<u>56</u>	<u>56</u>
		<u>4,131</u>	<u>3,922</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

13. INCOME TAX	2020 KShs'000	2019 KShs'000
(a) Income tax expense		
Deferred income tax	-	-
Current income tax	-	-
Tax expense	<u>-</u>	<u>-</u>

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

	2020 KShs'000	2019 KShs'000
Profit/(loss) before income tax	26,505	(47,727)
Tax calculated at a rate of 25% (2019:30%)	6,626	(14,318)
Tax effect of:		
Expenses not deductible for tax purposes	2,435	2,521
Income not deductible for tax purposes	(146)	(153)
Effect of change in tax rate on deferred tax	37,676	-
Movement in deferred income tax through profit or loss not recognised (note 23)	(46,591)	11,950
Tax expense	<u>-</u>	<u>-</u>
(b) Current tax recoverable		
Balance at 1 July	31,794	28,580
Withholding tax credit	2,504	3,214
Tax paid in the year	-	-
Balance at 30 June	<u>34,298</u>	<u>31,794</u>

14. EARNINGS PER SHARE

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

	2020 KShs'000	2019 KShs'000
Profit/(loss) attributable to shareholders (KShs'000)	<u>26,506</u>	<u>(47,735)</u>
Weighted average number of ordinary shares in issue during the year ('000)	<u>40,501</u>	<u>40,501</u>
Basic earnings per share (KShs)	<u>0.65</u>	<u>(1.18)</u>

There were no potentially dilutive shares outstanding at 30 June 2020 and 30 June 2019. Diluted earnings per share are therefore the same as basic earnings per share.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	KShs'000	KShs'000
15. CASH AND BANK BALANCES		
Cash in hand	9	19
Cash at bank	<u>7,925</u>	<u>2,552</u>
	<u>7,934</u>	<u>2,571</u>
16. DEPOSITS WITH FINANCIAL INSTITUTIONS		
KCB Bank Kenya Limited	-	95,666
Equity Bank Kenya Limited	84,224	
The Co-operative Bank of Kenya Limited	115,259	137,189
African Export - Import Bank	<u>-</u>	<u>158</u>
	<u>199,483</u>	<u>233,013</u>

The weighted average effective interest rate on placement with banks at 30 June 2020 was 7.4% (2019 – 8%).

17. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	2020	2019
	KShs'000	KShs'000
Commercial loans	849,872	711,627
Interest and other fees receivable	102,537	58,084
Employee loans	<u>24,770</u>	<u>26,673</u>
Gross loans and advances	977,179	796,384
Less: Provision for impairment of loans and advances		
- Stage 1	15	18
- Stage 2	2,571	34,796
- Stage 3	<u>141,336</u>	<u>117,957</u>
	<u>143,922</u>	<u>152,771</u>
Net loans and advances	<u>833,257</u>	<u>643,613</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

17. LOANS AND ADVANCES TO CUSTOMERS – CONTINUED

(b) Provisions – Loans & advances to customers

Movements in provisions for impairment of loans and advances are as follows:

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Year ended 30 June 2020				
At 1 July 2019	18	34,796	117,951	152,771
(Decrease)/increase in impairment provision	(18)	(32,225)	23,394	(8,849)
At 30 June 2020	-	2,571	141,351	143,922
Charge/(credit) to profit or loss				
(Decrease)/increase in impairment provision	(18)	(32,225)	23,394	(8,849)
	(18)	(32,225)	23,394	(8,849)

(c) Impairment loss on loans and advances

	2020 KShs'000	2019 KShs'000
Balances held as at 1 July	152,771	109,123
Net (decrease)/increase in impairment loss charged to profit or loss (Note 9)	(8,849)	40,116
Restatement on adoption of IFRS 9	-	3,532
Recoveries	-	-
As at 30 June	<u>143,922</u>	<u>152,771</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

17. LOANS AND ADVANCES TO CUSTOMERS – CONTINUED

(d) Concentration of risk

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

	2020 KShs'000	2020 %	2019 KShs'000	2019 %
Textiles	21,457	2.2	-	-
Food and animal feeds	218,197	22.3	142,260	17.9
Engineering	223,390	22.9	139,923	17.6
Mining and quarrying	137,168	14.0	128,559	16.1
Transport, communications , power & Energy	214,410	21.9	176,707	22.3
Healthcare services	45,776	4.7	80,010	10.0
Building & Construction	62,353	6.4	31,059	3.9
Others	29,658	3.0	71,193	8.9
Staff loans	24,770	2.5	26,673	3.3
	<u>977,179</u>	<u>100.0</u>	<u>796,384</u>	<u>100.0</u>

	2020 KShs'000	2019 KShs'000
(e) Maturity analysis		
Matured and maturing within 1 year	388,280	273,267
Less: Provision for impaired loans and advances	(143,922)	(152,771)
	244,358	120,496
Maturing after 1 year	<u>588,899</u>	<u>523,117</u>
	<u>833,257</u>	<u>643,613</u>

18. OTHER ASSETS

Prepayments	980	722
Interest receivable on deposits	2,841	1,849
Deposits and other receivables	<u>836</u>	<u>1,134</u>
	<u>4,657</u>	<u>3,705</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

19. FINANCIAL ASSETS (UNQUOTED)

Unquoted investments

	2020 KShs FVOCI	2019 KShs FVOCI
Balance as at 1 July	29,177	33,709
Translation differences	290	86
Fair value adjustments	<u>2,921</u>	<u>1,382</u>
	32,388	35,177
Impairment	-	(6,000)
Fair value – 30 June	<u>32,388</u>	<u>29,177</u>

	Ownership	1-Jul-19	Fair value gains/ (losses) 2019/20	Translation differences	Impair ment loss	Fair value 30- June-20
Nzoia Sugar Company Limited	0.9%	-	-	-	-	-
South Nyanza Sugar Company Limited	0.3%	-	-	-	-	-
Consolidated Bank of Kenya Limited	0.6%	3,309	1,063	-	-	4,372
African Export - Import Bank	0.3%	25,868	1,858	290	-	28,016
		<u>29,177</u>	<u>2,921</u>	<u>290</u>	-	<u>32,388</u>

The company's shareholding in African Export Bank is denominated in USD Dollars. IDB has subscribed for 12 class B shares with a nominal value of USD 10,000 each, out of which 40% has been called up and paid. The net asset value per share as at 30 June 2020 was USD 54,793 (2018 – USD 52,648)

20. DEFINED BENEFIT ASSET

The Company's Defined Benefit (DB) Scheme was closed as per the Government stipulation on 31 December 2011. A deed of closure was duly executed in August 2012 and the entire amount that was vesting in the DB scheme amounting to KShs 82.5 million was transferred and distributed to the members' accounts in the Defined Contribution (DC) scheme.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

21. PROPERTY AND EQUIPMENT

2020:	Motor vehicles KShs'000	Office equipment KShs'000	Furniture & fittings KShs'000	Other assets KShs'000	Work in progress (WIP) KShs'000	Total KShs'000
Cost						
At 1 July 2019	9,599	22,761	5,688	2,441	-	40,489
Additions	-	-	16	-	1,203	1,219
At 30 June 2019	9,599	22,761	5,704	2,441	1,203	41,708
Depreciation						
At 1 July 2019	8,325	20,556	5,347	2,441	-	36,669
Charge for the year	1,274	807	83	-	-	2,164
At 30 June 2020	9,599	21,363	5,430	2,441	-	38,833
Net carrying amount	-	1,398	274	-	1,203	2,875
2019:	Motor vehicles KShs'000	Office equipment KShs'000	Furniture & fittings KShs'000	Other assets KShs'000	Work in progress (WIP) KShs'000	Total KShs'000
Cost						
At 1 July 2018	9,599	21,861	5,688	2,441	-	39,589
Additions	-	900	-	-	-	900
Transfer from WIP	-	-	-	-	-	-
At 30 June 2019	9,599	22,761	5,688	2,441	-	40,489
Depreciation						
At 1 July 2018	6,627	19,644	5,250	2,441	-	33,962
Charge for the year	1,698	912	97	-	-	2,707
At 30 June 2019	8,325	20,556	5,347	2,441	-	36,669
Net carrying amount	1,274	2,205	341	-	-	3,820

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

22. INTANGIBLE ASSETS – Software	Software costs	Total
	KShs'000	KShs'000
2020:		
Cost		
At 1 July 2019	7,603	7,603
Additions	<u>—</u>	<u>—</u>
At 30 June 2020	<u>7,603</u>	<u>7,603</u>
Amortisation		
At 1 July 2019	6,812	6,812
Charge for the year	<u>416</u>	<u>416</u>
At 30 June 2020	<u>7,228</u>	<u>7,228</u>
Net carrying amount	<u>375</u>	<u>375</u>
2019:		
Cost		
At 1 July 2018	7,603	7,603
Additions	<u>—</u>	<u>—</u>
At 30 June 2019	<u>7,603</u>	<u>7,603</u>
Amortisation		
At 1 July 2018	6,395	6,395
Charge for the year	<u>417</u>	<u>417</u>
At 30 June 2019	<u>6,812</u>	<u>6,812</u>
Net carrying amount	<u>791</u>	<u>791</u>
23. DEFERRED INCOME TAX		

Following the 2020 tax laws amendment which was assented to law on 25 April 2020, the corporate tax rate reduced from 30% to 25%. The deferred income tax has been calculated using the new enacted tax rate of 25% (2019 – 30%). Deferred tax assets and liabilities, and the deferred tax charge in profit or loss account is attributable to the following items:

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019 (CONTINUED)

23. DEFERRED INCOME TAX (continued)

30-Jun-2020	At 01/07/2019 KShs '000	Prior year adjustment KShs '000	Movement in profit & loss KShs '000	Movement in other comprehensive income KShs '000	At 30/06/2020 KShs '000
Deferred income tax asset					
Property and equipment	1,006	-	(268)	-	738
Intangible assets	(105)	-	18	-	(87)
Initial adoption of IFRS 9	1,813	-	(302)	-	1,511
Provisions for doubtful debts	-	-	-	-	-
Provision for leave	743	-	(293)	-	450
Fair value loss	(414)	-	-	(731)	(1,145)
Unrealised exchange loss	-	-	-	-	-
Tax losses carried forward	224,244	-	(45,746)	-	178,498
Net deferred tax asset	227,701	-	(46,591)	-	181,110
Deferred tax asset not recognised	(227,287)	-	46,591	731	(179,965)
	414	-	-	731	1,145
Deferred tax liability recognised	(414)	-	-	(731)	(1,145)

30 June 2019	At 1 July 2018 KShs '000	Prior year adjustment KShs '000	Movement in profit & loss KShs '000	Movement in other comprehensive income KShs '000	At 30 June 2019 KShs '000
Deferred income tax asset					
Property and equipment	1,242	-	(236)	-	1,006
Intangible assets	(105)	-	-	-	(105)
Initial adoption of IFRS 9	-	1,813	-	-	1,813
Provisions for doubtful debts	1,271	-	(1,271)	-	-
Provision for leave	813	-	(70)	-	743
Fair value loss	-	-	-	(414)	(414)
Unrealised exchange loss	1	-	(1)	-	-
Tax losses carried forward	210,716	1,813	13,528	-	224,244
Net deferred tax asset	213,928	1,813	11,950	(414)	227,287
Deferred tax asset not recognised	(213,928)	(1,813)	(11,950)	414	(227,287)
Deferred tax liability	-	-	-	(414)	(414)

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

23. DEFERRED INCOME TAX (continued)

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

The total tax losses as at 30 June 2020 were KShs 713,992,156 (2019 – KShs 747,478,424). The tax losses will expire as follows:

Arising in:	Tax losses Kshs'000	Expiring:
2010 and earlier	(546,427)	30 June 2019
2011	(27,271)	30 June 2020
2014	(22,751)	30 June 2023
2017	(56,107)	30 June 2026
2018	(16,344)	30 June 2027
2019	(45,092)	30 June 2028
2020	_____	
Tax losses carried forward	<u>(713,992)</u>	

A deferred tax of KShs. 46,906,690 as at 30 June 2020 (2019 – KShs. 227,287,125) has not been recognised due to uncertainty as to the availability of future taxable profits, against which the tax losses could be utilised. Uncertainty arises due to absence of a precise estimation of future taxable profits.

24. OTHER LIABILITIES	2020 KShs'000	2019 KShs'000
Sundry creditors	1,800	2,477
Accruals	8,414	7,826
Other liabilities	5,795	135
Provision for gratuity (See below)	<u>474</u>	<u>4,026</u>
	<u>16,483</u>	<u>14,464</u>
Gratuity movement		
At 1 July	4,026	3,862
Additional accrual	2,055	2,968
Payments during the year	<u>(5,607)</u>	<u>(2,804)</u>
At 30 June	<u>474</u>	<u>4,026</u>

25. LONG TERM LOAN

IDB is the implementing agent of the Line of Credit (LOC) amounting to KShs 1.5 billion signed between the Government of Kenya and Exim Bank of India on 26 June 2016 through a subsidiary financing agreement between the GOK and IDB dated 9 May 2017. The LOC is for the development of Small and Medium enterprises in Kenya. The operationalization of the LOC is through draw down upon presentation of projects sourcing for equipment from India. The line is for a period of 25 years including a grace period of 5 years at a rate of 4% p.a. However, the interest will be accrued and capitalised at the end of the grace period.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

25 LONG TERM LOAN (Continued)

During the financial year 2019/20, applications for 6 projects were lodged with EXIM India for contract inclusion that amounted to KShs -143.201 Million (USD 1,250,164) (2018/19: KShs 554.2 million). A total of 7 projects with amounts totalling to KShs 140.652 Million (USD 1,310,019) were approved during the financial year 2019/20. A total of 6 projects were disbursed during the year amounting to KShs 124.068 Million (USD 1,201,578). (2018/19: 3 Projects; KShs 210.01 million (USD 2,079,135). At the close of the year, pending disbursements out of the approvals amounted to KShs 120.238 Million (USD 1,138,618).

	2020 KShs'000	2019 KShs'000
At 1 July	212,980	-
Disbursements	124,069	210,010
Accrued interest	<u>10,101</u>	<u>2,970</u>
At 30 June	<u>347,150</u>	<u>212,980</u>
26. SHARE CAPITAL	No. of shares	paid up share capital KShs'000
At 1 January and 30 June 2020		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>
At 1 January and 30 June 2019		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>

The total authorised share capital is KShs 1,000,000,000 (2019 – KShs 1,000,000,000) made up of 46,000,000 (2019 – 46,000,000) 'A' ordinary shares of KShs 20 each and 4,000,000 'B' ordinary shares of KShs 20 each.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

26. SHARE CAPITAL (continued)

The percentage shareholding at 30 June 2020 and 30 June 2019 is as follows:

Shareholder	Issued and paid up capital (KShs'000)	% Shareholding
Government of Kenya (G.O.K)	690,203	85.21
Industrial and Commercial Development Corporation (ICDC)	34,710	4.29
National Bank of Kenya (NBK)	28,369	3.50
Kenya Reinsurance (Kenya-Re)	28,369	3.50
Kenya National Assurance Company (KNAC)	28,369	3.50
	810,020	100.00

27. NOTES TO THE STATEMENT OF CASHFLOWS

Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	2020 KShs'000	2019 KShs'000
Profit/(loss) before tax	26,506	(47,727)
Adjustments for:		
Prior year adjustment - interest income	32	253
Depreciation on property and equipment	21	2,164
Amortization of intangible assets	22	416
Depreciation on right-of-use asset	29	4,941
Interest expense on lease liability	29	1,670
Impairment on equity investments	-	1,000
Prior year restatement -IFRS 9 adjustments- loans and advances	-	(6,042)
Prior year restatement -IFRS 9 adjustments - equity	-	36
Exchange gain on retranslation of investments	19	(86)
Dividends income on financial assets	8	(511)
Operating profit/(loss) before working capital changes	35,074	(50,206)
Increase in loans and advances	(189,644)	(117,176)
(Increase)/decrease in other assets	(952)	434
Increase/(decrease) in other liabilities	2,019	(1,839)
Cash generated used in operations	(153,503)	(168,787)

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

28. CASH AND CASH EQUIVALENTS

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

	2020 KShs'000	2019 KShs'000
Cash and bank balances (Note 15)	7,934	2,571
Deposits with financial institutions (Note 16)	<u>199,483</u>	<u>233,013</u>
	<u>207,417</u>	<u>235,584</u>

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

29. LEASES

Company as a lessee

The Bank has a lease contract for its office space at NBK building whose lease term is 6 years.

Set out below are the carrying amounts of the right-of-use asset recognized and the movements during the period:

	Right-of-use asset KShs'000
Cost	
At 1 July 2019	12,373
Additions	<u>-</u>
At 30 June 2020	<u>12,373</u>
Depreciation	
At 1 July 2019	-
Charge for the year	<u>4,941</u>
At 30 June 2020	<u>4,941</u>
Net carrying amount at 30 June 2020	<u>7,432</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

29. LEASES - Continued

Set out below are the carrying amounts of the lease liabilities and the movements during the period:

	Lease liability 30 June 2020 KShs'000
As at 1 July	12,373
Additions	-
Accrued interest	1,670
Payments	<u>(5,697)</u>
As at 30 June 2020	<u>8,346</u>
Current	4,967
Non – current	<u>3,379</u>
Total	<u>8,346</u>

The following are amounts recognized in profit or loss:

	2020 KShs'000
Depreciation expense of right-of-use asset	4,941
Interest expense on lease liabilities	<u>1,670</u>
Total amount recognised in profit or loss	<u>6,611</u>

30. RELATED PARTY TRANSACTIONS

	2020 KShs'000	2019 KShs'000
(a) Management Compensation		
Chief Executive Officer (CEO) and senior management emoluments	<u>26,012</u>	<u>27,370</u>
	<u>26,012</u>	<u>27,370</u>
(b) Directors' emoluments		
Directors allowances	4,503	5,445
Directors expenses	703	824
Directors fees	<u>1,550</u>	<u>1,505</u>
	6,756	7,774
CEO expenses	<u>10,264</u>	<u>9,986</u>
	<u>17,020</u>	<u>17,760</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

30. RELATED PARTY TRANSACTIONS (Continued)

	2020 KShs'000	2019 KShs'000
(c) Directors allowances		
Prof. Michael Bowen	563	1,506
Hillary Korir	-	462
Emily Njuki	821	530
Edward Kingi	602	587
Representatives of Institutional Directors		
(i) Treasury		
Mark Ngecho	183	-
Johnstone Oltetia	111	443
(ii) MITC		
David Wesonga	529	-
Margaret Kigonda	-	144
Henry Rithaa	-	243
(iii) KNAC		
Mark Gakuru	377	313
Barbara Nguyu	21	43
Diana Mumo	21	-
(iv) Kenya-Re		
Jadiah Mwarania	186	150
Nicodemus Gekone	107	86
Johnstone Ileri	-	64
Beth Nyaga	-	21
(v) ICDC		
Edward Gitau	382	279
Robert Chesire	-	21
(vi) NBK		
Wilfred Musau	-	43
Henry Maosa	230	212
(vii) Office of the President		
Joyce Wesonga	290	-
Maingi Inoti	-	234
Christopher Ombega	40	64
Nicholas Awiti	40	-
	<u>4,503</u>	<u>5,445</u>

31. CONTINGENT LIABILITIES

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.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

32. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to corrections to recognise interest income on loans disbursed under the Line of Credit that was not accrued in the previous year. The impact of the prior year adjustments on the financial statements is detailed below;

Statement of financial position

	Assets Interest receivable Shs'000	Equity Retained earnings Shs'000
Balance at 30 June 2019 as previously reported	7,579	(89,327)
Increase in retained earnings	<u>253</u>	<u>253</u>
Restated balance at 30 June 2019	<u>7,832</u>	<u>(89,074)</u>

33. EVENTS AFTER THE BALANCE SHEET DATE

- (a) The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the world causing disruptions to businesses and economic activity and could result in the Company being affected financially in the future. The Company considers this outbreak to be a non-adjusting event after the reporting period. As the situation is fluid and rapidly evolving, the Company is assessing the impact of COVID - 19 to our business.
- (b) On 25 April 2020, the Kenyan government enacted the Tax Laws (Amendment) Act, 2020 which reduced the corporate tax rate from 30% to 25%. The new rate of 25% is applicable for the 2020 year of income. The effect of application of the revised tax rate was KShs 37,676,000, see note 13.

Other than the above, the directors of the Company are not aware of any events occurring between the reporting date and the date of approval of the financial statements that may require any adjustment or disclosure in the financial statements.

IDB CAPITAL LIMITED

APPENDICES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

IDB Capital Limited received an unqualified audit opinion on the financial statements for the year 2019/20. There are management letter points from the auditor for continuous improvement.

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

No Projects funded by development partners was implemented by IDB Capital Limited in the financial year 2019/20.

APPENDIX III: INTER-ENTITY TRANSFERS

IDB Capital Ltd did not have inter entity transfers during the year nor was there any donor receipts.

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

IDB Capital Ltd did not have transfers from other government entities during the year nor was there any donor receipts.

APPENDIX V: PENDING BILLS

IDB Capital Ltd did not have pending bills at the end of the financial year ended 30 June 2020.