REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

IDB CAPITAL LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2019

IDB CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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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 work place.
(viii) Training and development: IDB recognizes and supports the desire and ability of staff to grow and improve.

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
Commercial Bank of Africa Limited
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
PO Box 54556 – 00200
Nairobi
Tel 0712216228

Kibatia & Company Advocates
Blue Violets Plaza 3r Floor, Kindaruma Road
Off Ngong Road
PO Box 20631 – 00200
Nairobi
Tel 020 2229495

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

KMK Advocates
KMK Main Chambers,
Theta Lane, Off Lenana Road
PO Box 74221 - 00200
Nairobi
Tel 0721258263

KN Law LLP
5th Floor, The Pavilion, Westlands
Lower Kabete Road
PO Box 27547 – 00100
Nairobi
Tel 020 3861305/6/7

Moronge & Company Advocates
Electricity House, 6th Floor
PO Box 44289 - 00100
Nairobi
Tel 020 2664223

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

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	Mr. Henry K. Rotich, EGH Alternate: Mr. J.K. Oltetia
Permanent Secretary, Ministry of Industry Trade & Cooperatives	Ms Betty Maina, MBS Alternate: Margaret Kigondu (Retired 1 October, 2018). Replaced by Henry Mwenda Rithaa (Appointed 19 December 2018)
National Bank of Kenya Limited	Represented by Mr. Wilfred Musau (Retired 1 December 2018). Replaced by Mr. Henry Maosa (Appointed 1st December 2018)
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. Jadiah Mwarania
Mr. Hillary Korir	Independent Director (Retired 1 October, 2018)
Mr. Edward Kingi	Independent Director (Appointed 2 October, 2018)
Ms. Emily Njuki	Independent Director (Appointed 2 October, 2018)
Company Secretary	Rebecca Akoth Kinyanjui (Mrs) PO Box 44036 – 00100 Nairobi

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2019

The Directors submit their report together with the audited financial statements for the year ended 30 June 2019, 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 Company recorded a net loss for the year of KShs 47.73 million (2018 – loss of KShs 21.69 million).

3. Dividends

The directors do not propose payment of a dividend (2018 – 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 2019 was a challenging year as the company endeavoured to roll out the Export Import Bank (EXIM) India Line of Credit (LOC) despite the operationalisation hitches. The bottom line was also adversely impacted by the increased level of provisioning for loans & advances that were required after the implementation of IFRS 9. The Company recorded a net loss of KShs 47.73 million (2018 – net loss of KShs 21.69 million). Total operating income declined by 1.5% to KShs 106.29 million in 2019 due to decrease interest earned. Even though loan disbursements in 2019 which amounted to KShs 298.9 million had increased compared to those in 2018 (Kshs 76.08 million), the interest accrual impacted our earnings in the tail end of the year. Total operating expenses increased by 16% to KShs 113.23 million compared to the year ended 30 June 2018 which stood at KShs 97.7 million. The net income was lower in the current year due to the maturing portfolio and delayed disbursements coupled by an increase in loan impairment during the year (2019 – KShs 40.8 million; 2018 – KShs 31.8 million) which was netted off against total operating income.

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 176.8 million while the total expenses will be KShs 171.5 million the projected surplus will therefore be KShs 5.3 million. The projections are based on the assumption that the a substantial drawdown from Line of Credit (LoC) from Exim Bank of India amounting to KShs 0.8 billion will be made and the available internal funds amounting to KShs 235 million will be disbursed during the year.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2019 (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 2019.

9. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on
30 September 2019

BY ORDER OF THE BOARD

Kahiri

DIRECTOR

Date: 30 September 2019

CHAIRMAN'S STATEMENT

The year 2018/19 marks the 3rd year under our 5-year strategic plan cycle dubbed ***Business Growth.*** It was also a year that reminded us of the importance of strong values and culture. The Board reviewed its 2016-2021 strategic plan to align with the Big 4 Agenda unveiled by His Excellency The President as supported by the 10 year Industrial Transformation Program by the Ministry of Industry, Trade and Cooperatives.

Our strategic plan remains a key reference blueprint for the Company in the path of implementation of our turnaround and strategic focused initiatives. We have put in place strategies to take advantage of opportunities in the markets we operate in. We firmly believe that implementation of the strategy plan will enable the company increase its financial strength and yield targeted profits in the coming years. Under the revised plan, our target is to provide unique opportunities to generate direct and indirect employment, foster strong forward and backward cross-sectoral linkages, and sustain economic growth. As we advance, we continue to invest in key personnel so as to ensure that our customers receive the best service in our pursuit to offer personalized financial solutions that are designed in a manner that solves problems facing Small and Medium Enterprises (SMEs) in Kenya. Today, we can proudly say that we are making great strides in our main areas of action under the current strategic plan cycle.

Over the years, we have sought to align ourselves with the national development agenda therefore making IDB a key policy tool to the Government in achieving her objectives. We remain steadfast in our commitment to the country in pushing for the full implementation of the Big 4 Agenda. Our product line has helped us create value with an aim of helping Kenya foster sustainability and competitiveness in economic development through industrial financing especially in manufacturing and agro-processing. This will go a long way in supporting the growth of manufacturing from the current contribution to GDP of 8.3% to 15% by year 2022 as envisaged in the Big 4 Agenda.

In the period under review, the Kenyan economy and politics stabilized, which enabled local business to generate higher yields that lead to the rise in the GDP from 5.0% to 6.3%. Manufacturing and industrialization has recovered from declines recorded in 2017/18 with 2018/19 proving to be a better year for the country. Kenya's inflation also decreased from 8.02% the previous year to 5.7% in June 2019.

I wish to thank the Government of Kenya for her continued support as we continue to implement the USD 1.5 million credit facility negotiated between the Government of Kenya and Export Import (EXIM) Bank of India. We look forward to establishing a similar facility with a higher amount towards the end of this financial year. I also wish to extend my gratitude to IDB's Board of Directors for their continued support in ensuring that our stakeholders receive the best service in development financing.

In closing, I would like to thank the staff and management of IDB for their continued dedication and hard work to move our organization to the next level.

Thank you.

Prof Michael Bowen, PhD
Chairman – Board of Directors

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.
 Mr. Henry K. Rotich, EGH Cabinet Secretary, National Treasury	Mr. Henry K. Rotich, EGH, is the Cabinet Secretary, National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 13 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001 and 2004. He has been a Director of several Boards of State Corporations including; Kenya Reinsurance Corporation, Insurance Regulatory Board, Communication Commission of Kenya and Kenya National Bureau of Statistics. Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics (University of Nairobi). He was born in 1969.
 Mr. Johnstone K. Oltetia Alternate to the CS National Treasury.	Mr. Johnstone Oltetia is an Alternate Director to the CS National Treasury at IDB Capital Limited. A Senior Financial Sector Adviser at the National Treasury, advising on policy matters relating to capital markets, pensions, insurance, banking and other financial services. Previously was the Head of Market Supervision at the Capital Markets Authority, Kenya responsible for oversight of Exchanges(s), CSDs, Asset Managers, Investment Banks, Stock Brokers and Investment Advisers among others. A Certified Investment and Financial Analyst and holder of MBA and B. Com degrees. Member of Institute of Certified Investment and Financial Analysts (ICIFA), Institute of Directors of Kenya (IOD) and Association of Certified Fraud Examiners (ACFE). He also serves in the Board of FSD Kenya. He was born in 1973.

BOARD OF DIRECTORS PROFILES (CONTINUED)

 Ms Betty Maina, MBS Principal Secretary, State Department of Investment and Industry (MITC)	Ms Betty Maina is the Principal Secretary for Industrialization in the Ministry of Industrialization Trade and Cooperatives (MITC).A seasoned professional with more 20 years' experience in organisational leadership and development and engaged in policy analysis and influence. A proven and capable leader with ability to prepare and implement strategic business plans and mobilise the necessary resources for implementation. Adept at policy analysis, communication and negotiation with decision makers at all levels. She has proven skills and is experienced in economic policy development, private sector development and advocacy, trade policy, regional integration, education and skill development, integrated development, organisational management; public policy research, analysis, communication and advocacy and extensive experience in facilitation and training. Previously, she was the CEO of the Kenya Association of Manufacturers for 11 years until June, 2015; and subsequently the CEO of the Institute of Economic Affairs – an applied policy think tank. Ms. Maina holds an MSc degree in Development Administration from the University College London and a BA degree in Land Economics from the University of Nairobi.
 Mr. Henry Mwenda Rithaa Alternate to PS Principal Secretary, State Department of Investment and Industry	Mr Henry Mwenda is an Alternate Director to the Principal Secretary, State Department of Investment and Industry Ms Betty Maina. Currently the Chief Executive Officer of the Micro and Small Enterprises Authority. (MSEA).He has over 14 years' experience in corporate leadership, strategic planning, corporate management and credit management. His experiences are drawn from various management positions held in leading private and public sector institutions' which includes Standard Chartered Bank, Equity Bank, Commercial Bank of Africa, KTDA, EPC, Meru County microfinance corporation where he served as Managing Director. He is holds an MBA (Strategic management) and a Bachelor's Degree in Business Administration (Finance Option) and currently finalizing a thesis a thesis for the award of Master of Arts in regional integration with a focus on regional trade facilitation at catholic university of east Africa (CUA). Henry is a member of KIM (MKIM) and he also holds professional certification in risk management from GARP.

BOARD OF DIRECTORS PROFILES (CONTINUED)

 Mr. Mark Gakuru Representing KNAC (In Liquidation)	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 Ag. 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.
 Mr. Edward J. G. Gitau Representing Industrial & Commercial Development Corporation (ICDC)	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.
 Mr. Jadiah Mwarania, OGW Representing Kenya Reinsurance Corporation	Mr. Jadiah 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 (FIIK) and is a Chartered Insurer (CI) of the Insurance Institute of London. He is a Fellow of the Kenya Institute of Management (FMKIM). Mr Mwarania is a Director on the Board of Directors of Zep Re (PTA Reinsurance Company) and the Chairman of the Association of Kenya Reinsurers (AKR), a Board Member of the Insurance Training and Education Trust (ITET) and member of the Finance and Development Committee of the Board of the College of Insurance of Kenya. He was born in 1964.

BOARD OF DIRECTORS PROFILES (CONTINUED)

 Mr. Henry Maosa Representing National Bank of Kenya	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. He holds a Bachelors 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.
 Mr. Edward Kingi Independent Director	Mr. Kingi attended Mangu High School, Moi High School Kabarak and University of Nairobi where he graduated with Bsc Agric economics (Hons) in 1990. He did Msc 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 Makueni 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.
 M/s. Emily Njuki Independent Director	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 Loreal East Africa. She holds a Masters 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. Emily is also a founder of Pentrain Capital Limited. She was born in 1985.

BOARD OF DIRECTORS PROFILES (CONTINUED)

<table>
<tr>
<td>
Mrs. Karen Kandie
Managing Director</td>
<td>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.</td>
</tr>
<tr>
<td>
Mrs. Rebecca A. Kinyanjui
Chief Legal Officer/
Company Secretary</td>
<td>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.</td>
</tr>
</table>

MANAGING DIRECTOR'S STATEMENT

Dear shareholders;

The year 2018/19 marked a new chapter for IDB Capital Limited with increased disbursement from the credit facility signed between Kenya and Export Import (EXIM) Bank of India. We saw an upsurge of interest on the technology transfer credit facility from manufacturers who were keen to importing machinery from India.

Financial performance
During the year under review, IDB like other financial institutions, implemented the International Financial Reporting Standard 9 (IFRS 9-financial instruments). This new standard of accounting replaced the International Accounting Standard (IAS 39) and it covers classification and measurement of financial assets, impairments of financial assets and measurements of financial liabilities. This implementation is affects provisioning of bad and doubtful debts. The most significant change is the move from incurred to the expected credit loss model for impairments of financial assets. As a result of IFRS 9 implementation, net impairment loss increased from KShs 31.62 million as at June 2018 to KShs 40.77 million as at June 2019.

IDB recorded a loss before tax of KShs 47.727 million up from a loss of KShs 21.69 million in 2018/2019 due to the adoption of IFRS 9 which resulted in higher levels of loan impairments. However, there was a remarkable growth of the loan book that saw the asset base grow to KShs 948.49 million as at 30th June 2019 from KShs 789.73 million as at 30 June 2018. This was occasioned by customer profiling, targeted marketing, and exceptional customer experience to our stakeholders. Focus on cost management to realise value for money has been revamped.

Lending to SMEs continued to be affected by Banking (Amendment) Act, 2016, section 33B (1) (a). which set the maximum chargeable interest rate at not more than 4% above the base rate by CBK satisfy market expectation IDB put our interest rate to be same as for commercial banks thereby suppressing the growth of our interest income. Despite the increased uptake of the EXIM Bank of India credit facility, the total operating income decreased from KShs 107.89 million as at June 2018 to KShs 106.29 million as at June 2019 due to maturing existing loan portfolio. The net loan portfolio continued to record remarkable growth having grown from KShs 526.44 million as at 30 June 2018 to KShs 643.61 million as at 30th June 2019. The increase was as result of disbursement from the Line of Credit (LOC).

Resource mobilization
In the wake of the expected merger between IDB Capital Limited, Industrial and Commercial Development Corporation (ICDC) and Tourism Finance Corporation (TFC), we have continued to build and invest on relationships that could be useful in resource mobilization. To this end we have increased our vigour to ensure full utilization of the KShs 1.5 Billion credit facility signed between Government of Kenya and EXIM India.

Internal processes
The focus of our interactions with customers has been on creating end-to-end customer journeys, from first interaction to long-term loyalty. This has required us to establish two building blocks: the first is technology and how we seamlessly integrate human and digital interactions to get even closer to our customers. We understand how much people value convenience, speed and simplicity. We have ensured that when customers have questions, they can reach us quickly through whatever channel they want or is available to them. This has been made possible by our new upgraded website, active social media accounts in an effort to ensure we are reachable anytime our clients/ stakeholders are looking for us.

Secondly, a rewarding customer journey also requires understanding – analysing the information people share with us to better appreciate their goals and challenges. We are developing our teams to think like our customers, guided by insights into what they prefer, and what works best from their perspective. After gaining that understanding, we then create more personalized products, services and experiences.

Procurement disclosure
As required, IDB Capital Limited has strictly complied with legal framework governing procurement processes in Kenya such as Public Procurement and Assets Disposal Act (2015), Supplies Management Practitioners Act (2007) and other government directives.

Looking ahead
As we embark on the 2019/2020 journey, I believe that our business can only get better. We have a solid strategic plan on course to ensure an exceptional 2019/2020. Our business has grown over the years and with the unwavering support from our valued shareholders, customers and staff. With that, we have prioritized to focus on ensuring that customer experience excellence. It is our aim to attain excellence not only in our internal operations but also in our interaction with customers across all points. We identify that keeping our customers at the forefront of what we do is paramount in building advocacy and as a result, attracting new business. In order to attain customer excellence, we will require to work on our turnaround time on customer feedback and complaints by ensuring the availability of our systems and improving our online presence in our social media platforms.

Renewing our brand is among our key target for 2019/2020 financial year. In 2019 we aim to rebuild IDB to be the Development Financial Institution of choice that we have always envisioned it to be. We will continue to engage our stakeholders on ground and online so as to create awareness of our brand and our competitive products and services.

Conclusion
As an institution, we are focused on positive growth and creating value to all our esteemed stakeholders. I would wish to extend my sincere appreciation to the Board of Directors, our loyal customers and partners, for together we have come this far and we aim to go further.

I also wish to thank the management and staff who worked tirelessly with energy and enthusiasm to deliver this solid performance and unwavering determination to steer the business in spite of a relatively turbulent year.

We seek God's favour as we strive to grow IDB into a powerful driver of economic development of the government.

Thank you and God Bless You

…………………………..
Karen N. Kandie
Managing Director

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. Robert Ng'ang'a Chief of Credit	Mr. Robert W Ng'ang'a is the Chief of Credit of IDB Capital. He has over 14 years Credit Experience in the Banking Industry. Previously he served as an Assistant General Manager –Credit, Head of Asset Quality and Head of Debt Management in Chase Bank Limited. He also served as Head of Credit Approvals in Fina Bank (Currently GT Bank), Credit Manager and Head of Credit at Credit Bank Limited and Served as a Credit officer at Equity Bank Limited. He holds a Bachelor's degree in Economics and Business Studies from Kenyatta University, and currently pursuing his project in MSC Entrepreneurship from Jomo Kenyatta University and is a Holder of CPA Section 4 (Part 2). He holds various Credit certifications and attended numerous specialized credit training courses. He was born in 1978.
 Mrs. Rebecca A. Kinyanjui Chief Legal Officer/Company Secretary	Mrs. Rebecca Kinyanjui is the Chief Legal Officer / Company Secretary in IDB Capital Limited. She joined as a Senior Legal Officer in August 1988. She previously worked as a State Counsel at the Office of the Attorney General. She holds an LLB (Hons) Degree from the University of Nairobi, a Diploma in Legal Practice. She is a Certified Public Secretary (CPS - K). She was born in 1961.

MANAGEMENT TEAM (CONTINUED)

 Mrs. Priscilla N. Njuguna Manager, Legal Affairs	Mrs. Priscilla Njuguna is the Legal Affairs Manager and is the legal advisor to the Institution. She joined IDB Capital Limited as a Legal Officer in May 1988. She previously worked as a Registrar in the Ministry of Lands and Housing. She holds a Bachelor of Law degree LLB (Hons) from the University of Nairobi, a Diploma in Legal Practice from The Kenya School of Law and is a Certified Public Secretary, (CPS- K).
 Mrs. Anne N. Gitau Manager, Finance & Accounts	Mrs. Anne Gitau 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.
 Mrs. Judith A. Omachar Manager, Credit	Mrs. Judith Omachar is the Manager Credit. She is responsible for overall credit management functions. She has over 20 years' experience in credit management gained at IDB Capital. She holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K).
 Mr. John Ouko Manager, ICT	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).

CORPORATE GOVERNANCE STATEMENT

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

The Board of Directors

The Board comprises the following ten members;

i. The Chairman
ii. Two (2) Independent Directors
iii. CS National Treasury
iv. PS Ministry of Industrialisation Trade & Cooperatives
v. Industrial and Commercial Development Corporation
vi. National Bank Of Kenya
vii. Kenya Reinsurance Corporation
viii. Kenya National Assurance (in Liquidation)
ix. Managing Director

The conduct of the Board is governed by the terms of a Board Charter ensuring that its role is independent from that of management. It covers Board responsibilities, the conduct of meetings, conflict of interest, Board effectiveness and evaluation and information confidentiality among other matters. The Board meets quarterly or more often if business so dictates. During its meetings it considers reports from the various board committees and matters related to the general strategy of the Company.

Board Committees

There are three (3) committees of the board. Their terms of reference have been set by the board and they make recommendations to the board on various matters delegated to them. The current Board Committee membership details are as follows:

	Director	**Status**	**Committees**		
			Audit	**Finance & Investment**	**HR**
1	Mr. Johnstone K. Oltetia (Alternate CS Treasury)	Non-Executive	✓		
2	Mr. Henry M. Rithaa (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
√ – Member of the Committee

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Meetings

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

		Board	Audit	Finance & Investment	HR
	Number of Meetings	**9**	**5**	**5**	**2**
1	Prof. Michael Bowen	9			
2	Henry Rithaa	2		2	1
	Margaret Kigondu	3			1
3	Wilfred Musau		1		
	Henry Maosa	6	4		
4	Mark Gakuru	9	5		2
5	Jadiah Mwarania	8		5	
6	Edward J. G. Gitau	9		5	
7	Hillary Korir	4	2		1
8	Mr. Johnstone K. Oltetia	6	4		
9	Karen Kandie	9		5	2
10	Emily Njuki	4			1
11	Edward Kingi	4	2		

Executive Committees

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

Board Evaluation

A Board evaluation is conducted by the State Corporation Advisory Committee (SCAC) every year. The evaluation covers the performance of the Chairman, individual directors, the Managing Director and the Company Secretary. The Corporate Board performance score for the last evaluation was 86.36%.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

As regards the Mwongozo Code, policy papers are under consideration covering, stakeholder relationship management, risk management and corporate reputation & image.

Directors' Benefits and Loans

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

MANAGEMENT DISCUSSION AND ANALYSIS

The entity's operational and financial performance

In Financial 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 38.8 million in the total income and a positive variance in the total administrative expenses of KShs 10.6 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). However, the expenditures had cost savings resulting in the positive variance due to cost cutting measures.

The statement of financial position size increased from a level of KShs 789.7 million in 30 June 2018 to KShs 948.49 million by 30 June 2019. The statement of financial position size increased due increase in loan disbursements resulting in an increased loan book. The Non-Performing loan book levels as at 30 June 2019 was 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 under the standard category which will reduce the Non Performing Accounts (NPA) ratio.

The projected cash flows for the financial year 2019/20 are positive with the main underlying assumption being that the Line of Credit from India will be fully drawn and that internal funds which stand at KShs 235 million will be fully disbursed during year and a further KShs 600 million will be drawn down and disbursed from the LOC.

During the year ended 30 June 2019, various marketing initiatives 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 initiates, twelve (12) projects totaling KShs 636.9 million were approved during the year. The total approvals comprised of KShs 554.2 million from the LOC and KShs 82.7 million from internally generated funds. Of the total approvals, two (2) loans totaling KShs 231.9 million under the LOC were declined by the clients.

IDB has so far considered and approved funding requests from six (6) companies in excess of KShs 500 million, seven (7) projects whose applications amounts to KShs 205 million are currently undergoing appraisal and a potential pipeline of 10 projects totalling to KShs 381 million.

IDB has obtained approval for the first contract inclusion under the line which is a pre-requisite for disbursement. However various challenges have been experienced that continue to slow down the disbursements on the LOC and the same have 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 18.1 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 6.8 million) whilst the balance will be utilized to replace the existing equipment, furniture and fittings, computers and partitions. As at 30 June 2019, only KShs 0.9 million had been expended on Computer hardware and office equipment due to the restrictions on capital expenditure due to the pending merger of IDB Capital Limited, Industrial and Commercial Development Corporation (ICDC) and Tourism Finance Corporation (TFC) to form Kenya Development Bank (KDB).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Major risks facing the entity

IDB Capital Limited primarily lends to commercial concerns. According to IDB Risk Management Statement, risk Management ensures "calculated risks are undertaken by the business and risky elements are eliminated or mitigated. This assures institutional sustainability." By our nature of business, the period's top three cited risks did include credit risk, operational risk and interest rate risk.

- ✓ **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. This risk is being mitigated through diverse options including sourcing of feasible and quality projects for funding, consideration of adopting risk sharing covers 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. This risk has been mitigated by ensuring that there are adequate internal controls and separation of duties to ensure that there adequate checks and controls.

- ✓ **Interest Rate Risk**

  The capping of the interest rates continue 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.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

Over the years we have worked with different organizations in a bid to support initiatives whose main aim is to improve the quality of life of people while trying to create a vibrant economy through Industrial financing.

During the year under review, we took critical interest in universal health coverage pillar, under Big 4 Agenda. Cognizant of the fact that quality healthcare is important in ensuring that everyone can access health services without risk of financial ruin or impoverishment, no matter what their socio-economic situation is, IDB collaborated with Humanity for Africa initiative to carry out a medical camp with Indian doctors at Mary Help of The Sick Mission Hospital Thika.

In 2018/2019 financial year, we oversaw initiatives that led to creation of job opportunities and promotion of local entrepreneurship, through concerted efforts by procuring locally made goods and services as an institution.

At the medical camp in Thika

SUSTAINABILITY REPORT

In line with our purpose to further economic development in Kenya, IDB remains committed to putting our customers first by building long term relationships as we provide financial solutions as a way to maintain sustainable development in line with Kenya`s vision 2030.

In an effort to provide first class quality services to our clients, we have continually strived to put our clients at the head of the table by investing in understanding their needs. We therefore ensure proper maintenance of constant communication with clients and encourage feedback from them on how we can improve our service delivery.

IDB`s success as a development financial entity is on its people. We continue to invest in rewarding, recruiting and developing talent across the organization to ensure capacity and capability building is at the forefront of business.

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 29 to 76 which comprise the statement of financial position at 30 June 2019, 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.

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

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the 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.

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 30-9-2019

Prof. Michael Bowen
Chairman

Henry Maosa
Director

Date: 30 September 2019

KPMG

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IDB CAPITAL LIMITED

REPORT OF THE AUDITOR (APPOINTED UNDER SECTION 23(1) OF THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL

Report on the audit of the financial statements

Opinion

We have audited the financial statements of IDB Capital Limited ("the Company") set out on pages 29 to 76 which comprise the statement of financial position at 30 June 2019, 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 our opinion, the accompanying financial statements give a true and fair view of the financial position of IDB Capital Limited as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Kenyan Companies Act, 2015 and the Public Finance Management Act section 81(2) (ii) and (iv).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2(c) to the financial statements, which indicates that on 15 May 2018, the Kenyan Cabinet approved the merger process of IDB Capital Limited with two other Development Finance Institutions (DFIs) to commence in the 2018/19 financial year to create the Kenya Development Bank Ltd (KDB). The incorporation of KDB will be followed by the dissolution of IDB Capital Limited. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

KPMG

IDB CAPITAL LIMITED

REPORT OF THE AUDITOR (APPOINTED UNDER SECTION 23(1) OF THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Impairment of loans and advances to customers	
See accounting policy Note 3(r) to the financial statements – Financial assets and Liabilities and disclosure in Note 17 – Loans and advances to customers.	
The key audit matter	**How the matter was addressed**
IFRS 9 *Financial Instruments* was implemented by the Company on 1 July 2019. This new 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 judgements or estimates made are inappropriate. We considered the impairment of loans and advances to customers to be a key audit matter due to the following: *Significant Increase in Credit Risk (SICR)* The criteria selected to identify a SICR are highly judgemental and can materially impact the ECL recognised for certain portfolios as these criteria determine whether a 12-month or lifetime expected credit loss is assessed. *Model estimations* Inherently, judgemental modelling 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 judgemental aspect of the entity's ECL modelling approach. *Disclosure quality* 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.	Based on our risk assessment and industry knowledge, we 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. Our audit procedures in this area included, among others: – Selecting a sample of facilities from the Company's loan book and performing tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS; – Performing credit assessment on various categories of loans to ascertain the reasonableness of the forecast of recoverable cash flows, realisation of collateral, and other sources of repayment for defaulted loans. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environments; – Evaluating the appropriateness of the SICR criteria used; – 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 – Assessing whether the disclosures appropriately reflect key judgements and assumptions used in determining the expected credit losses.

KPMG

IDB CAPITAL LIMITED

REPORT OF THE AUDITOR (APPOINTED UNDER SECTION 23(1) OF THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL (CONTINUED)

Report on the audit of the financial statements (Continued)

Other matter

We draw attention to the fact that our responsibility is to report and express an opinion on the outcome of our audit of the financial statements to the Auditor-General. The Auditor-General is responsible for reporting on his examination of these financial statements to the Cabinet Secretary responsible for the Company for presentation to the National Assembly.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *Annual Report and Financial Statements*, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

As stated on page 23, the Directors are responsible for the preparation of the Company's financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and the Public Finance Management Act section 81(2) (ii), (iv) 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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

REPORT OF THE AUDITOR (APPOINTED UNDER SECTION 23(1) OF THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL (CONTINUED)

Report on the audit of the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements - continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

For the matters communicated with those charged with governance, we 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

IDB CAPITAL LIMITED

REPORT OF THE AUDITOR (APPOINTED UNDER SECTION 23(1) OF THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL (CONTINUED)

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that:

(i) in our opinion the information given in the Report of the Directors on pages 4 to 5 is consistent with the financial statements; and

(ii) Our report on the financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Alexander Mbai – P/2172.

KPMG Kenya

KPMG Kenya
Certified Public Accountants
ABC Place, Waiyaki Way
PO Box 40612 – 00100
Nairobi

Date: 30 September 2019

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of IDB Capital Limited set out on pages 29 to 76, which comprise the statement of financial position as at 30 June, 2019, and the 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, 2019, 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. Loss for the Year

The statement of profit or loss and other comprehensive income reflects loss for the year of Kshs.47,727,000; (2018-Kshs.21,693,000) resulting in cumulative retained earnings deficit of Kshs.89,325,000 (2018 - Kshs.36,592,000). Although the Company's liquidity is adequate and covers the maturing obligations as and when they fall due, shareholder's funds continue to be eroded if the negative trend is not reversed.

2. Impending Merger

Note 2(c) to the financial statements discloses that on 15 May, 2018, the Government of Kenya approved the merger of IDB Capital Limited with Industrial and Commercial Development Corporation and Tourism Finance Corporation. The process of merger was to commence in the 2018/19 financial year 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. 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 qualified.

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
Implementation of IFRS 9, financial Instruments. 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	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. My audit procedures in this area included, among others: ▪ Selecting a sample of facilities from the Company's loan book and performing tests to establish whether significant

Key Audit Matters	How the matter was addressed
customers to be a key audit matter due to the following: **Significant Increase in Credit Risk (SICR)** 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. **Model Estimations** 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. **Disclosure Quality** 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.	facilities are correctly classified and valued based on IFRS; ▪ 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; ▪ Evaluating the appropriateness of the SICR criteria used; ▪ 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 ▪ 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. Non-Monitoring of Client Transactions

Contrary to the requirements of Section 44 of Proceeds of Crime and Anti-Money Laundering Act No. 9 of 2009, that requires any person or entity, which conducts as a business, one or more of the following activities or operations:

(a) accepting deposits and other repayable funds from the public;

(b) lending, including consumer credit, mortgage credit, factoring, with or without recourse, and financing of commercial transactions;

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.

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. 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 the 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.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

2. 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.

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 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 the management either intends to liquidated the Company or cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the 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 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

24 August, 2020

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

	Note	2019 KShs'000	2018 KShs'000
Net interest income	6	94,025	101,613
Non-interest income	7	7,166	5,785
Other operating income	8	5,096	488
Total operating income		**106,287**	**107,886**
Other loss			
Net impairment loss on loans and advances	9	(40,770)	(31,619)
Other (expenses)/income	10	(14)	(193)
Total other loss		**(40,784)**	**(31,812)**
Net income		**65,503**	**76,074**
Operating expenses			
Staff costs	11	(62,751)	(59,881)
Administrative expenses	11	(37,157)	(25,150)
Operating lease expenses	11	(10,198)	(9,586)
Depreciation and amortisation	11	(3,124)	(3,150)
Total operating expenses		**(113,230)**	**(97,767)**
Loss before tax	12	**(47,727)**	**(21,693)**
Tax expense	12	-	-
Loss for the year		**(47,727)**	**(21,693)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value	19	1,382	-
Related tax	23	(414)	-
Other comprehensive income, net of tax		**968**	**-**
Total comprehensive income for the year		**(46,759)**	**(21,693)**
Basic and diluted earnings per share (KShs)	14	**(1.18)**	**(0.54)**

The notes set out on pages 34 to 76 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

ASSETS	Note	2019 KShs'000	2018 KShs'000
Current assets			
Cash and bank balances	15	2,571	6,020
Deposits with financial institutions	16	233,013	188,974
Loans and advances to customers	17(c)(ii)	120,496	87,490
Current tax recoverable	13(b)	31,794	28,580
Other assets	18	3,705	4,139
		391,579	**315,203**
Non-current assets			
Loans and advances to customers	17(c)(ii)	523,117	438,947
Financial assets (unquoted)	19	29,177	28,745
Property and equipment	21	3,820	5,627
Intangible assets	22	791	1,208
		556,905	**474,527**
TOTAL ASSETS		**948,484**	**789,730**
LIABILITIES AND EQUITY			
Current liabilities			
Deferred tax liability	23	414	-
Other liabilities	24	14,464	16,302
		14,878	**16,302**
Non-current liabilities			
Long term loan	25	212,980	-
Total liabilities		**227,858**	**16,302**
Shareholders' funds			
Share capital	26	810,020	810,020
Fair value reserve		(69)	-
Retained earnings deficit		(89,325)	(36,592)
Total equity		**720,626**	**773,428**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**948,484**	**789,730**

The financial statements on pages 29 to 76 were approved and authorised for issue by the board of directors on 30-9-2019 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 34 to 76 form an integral part of these financial statements.

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

	Note	Share Capital KShs '000	Fair Value Reserve KShs '000	Accumulated Losses KShs '000	Total equity KShs '000
At 30 June 2018		**810,020**	**-**	**(36,592)**	**773,428**
Adjustment on initial application of IFRS 9	3 (r)	-	(1,036)	(5,006)	**(6,042)**
Adjusted balance 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**
As at 1 July 2017		810,020	-	(14,899)	**795,121**
Total comprehensive income for the year					
Loss for the year		-	-	(21,693)	**(21,693)**
Total comprehensive income for the year		**-**	**-**	**(21,693)**	**(21,693)**
Balance at 30 June 2018		**810,020**	**-**	**(36,592)**	**773,428**

The notes set out on pages 34 to 76 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 KShs'000	2018 KShs'000
Cash flows from operating activities			
Loss before tax		(47,727)	(21,693)
Adjustments for:			
Depreciation of property and equipment	21	2,707	2,700
Amortisation of intangible assets	22	417	450
Write-off of intangible assets and property and equipment	22	-	215
Impairment of equity investments	19	1,000	-
Exchange (gain)/loss on retranslation of investments	19	(86)	183
Prior year restatement – IFRS 9 adjustment - Equity	19	36	-
Prior year restatement – IFRS 9 adjustment - Loans	3 r(iii)	(6,042)	-
Dividend income on financial assets (unquoted)	8	(511)	(488)
Operating loss before changes in operating assets and liabilities		**(50,206)**	**(18,633)**
Changes in operating assets and liabilities			
Other assets		434	(373)
Loans and advances to customers		(117,176)	(44,490)
Other liabilities		(1,839)	(5,312)
Cash generated from/ (used in) operating activities		**(168,787)**	**(68,808)**
Dividends received		511	488
Net taxes paid	13(b)	(3,214)	(2,891)
Net cash from operating activities		**(171,490)**	**(71,211)**
Cash flows from investing activities			
Purchase of property and equipment	21	(900)	(981)
Net cash from investing activities		**(900)**	**(981)**
Cash flows from financing activities			
Proceeds from loans and borrowings	25	212,980	-
Net cash flows from financing activities		**212,980**	**-**
Net increase/(decrease) in cash and cash equivalents		40,590	(72,192)
Cash and cash equivalents at start of the year		194,994	267,186
Cash and cash equivalents at end of the year	27	**235,584**	**194,994**

The notes set out on pages 34 to 76 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

Budget VS Actual costs	Note	Original Budget KShs'000	Adjustments KShs'000	Final Budget KShs'000	Actual on comparable basis KShs'000	Performance difference KShs'000	Explanation
Revenues							
Net interest income	6	240,258	(139,305)	100,954	94,025	(6,928)	Budgeted level of loan disbursements not met hence the reduced interest income
Non-interest income	7	9,525	13,376	22,901	7,166	(15,735)	Budgeted level of loan disbursements not met hence the reduced appraisal fees
Other operating income	8	-	514	514	5,096	4,582	Dividend received from Afrexim Bank had not been budgeted for.
Net impairment loss on loans and advances	9	(26,364)	5,044	(21,320)	(40,770)	(19,450)	Additional impairment arising from IFRS 9 implementation
Other income	10	-	1,280	1,280	(14)	(1,294)	Gain on sale of motor vehicle that was not realised due to the merger restrictions
Total Revenues		**223,419**	**(119,091)**	**104,329**	**65,503**	**(38,825)**	
Operating expenses							
Staff costs	11	89,779	(22,085)	67,694	62,751	4,943	Salary review which had been budgeted for not implemented.
Administrative expenses	11	48,479	(6,720)	41,760	37,157	4,603	Stringent cost cutting measures on most of the expenditure items and the fact that the
Operating lease expenses	11	11,492	(1,138)	10,354	10,198	156	Legal fees charged on the preparation of lease agreement not budgeted for.
Depreciation and amortisation	11	7,991	(3,954)	4,037	3,124	913	Procurement of CAPEX items not done due to the merger restrictions hence the reduced depreciation & amortisation
Total Expenses		**157,741**	**(33,897)**	**123,845**	**113,230**	**10,615**	
Surplus/deficit		**65,678**	**(85,194)**	**(19,516)**	**(47,727)**	**(28,210)**	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 9 financial instruments and IFRS 15 revenue contracts 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.

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

2. BASIS OF PREPARATION (Continued)

(c) Going concern

The Company recorded a net loss of KShs 47.727 million for the year ended 30 June 2019 (2018 – KShs 21.69 million) and, as of that date the Company had accumulated losses of KShs 89.33 million (2018 – KShs 36.59 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 commence in the 2018/19 financial year to create the Kenya Development Bank Ltd (KDB). The purpose of the merger is to create a single cross-sector development finance institution with sufficient scale, scope and resources to play a catalytic role in Kenya's economic development. The incorporation of KDB will be followed by the dissolution of the three institutions. As of 30 June 2019 a draft bill (KDB bill 2019) had been drafted and is awaiting cabinet approval before being tabled in Parliament.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

Revenue is derived substantially from interest earned from loans and advances to customers and bank 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

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

(i) Net interest income

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

(ii) Fee income

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

(iii) Dividend income

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

(b) Translation of foreign currencies

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

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

(c) Offsetting

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

(d) Income taxes

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes (continued)

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

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

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

(e) Share capital

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

(f) Dividends

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

(g) Earnings per share

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

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 of 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.

(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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial assets (continued)

(ii) Interest income and expense (continued)

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 and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the company commits to purchase or sell the asset.

At initial recognition, the company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss.

Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated. At initial recognition, the company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions.

Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial assets (continued)

(iii) Recognition and initial measurement (continued)

At initial recognition, the company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets policy applicable from 1 January 2018

(i) Classification and subsequent measurement

From 1 July 2018, the company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL)
- Amortised cost.

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial assets (continued)

(i) Classification and subsequent measurement - continued

Debt Instruments - continued

— the company's business model for managing the asset; and
— the contractual cash flow characteristics of the financial asset.

Based on these factors, the company classifies its debt instruments into one of the following two measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, as measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest income" using the effective interest rate method.

- Fair value through profit or loss: assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

i. Business model assessed: Policy applicable from 1 January 2018

The business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the company in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial assets (continued)

(i) Classification and subsequent measurement - continued

Debt Instruments (continued)

ii. SPPI: Policy applicable from 1 January 2018

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

iii. Impairment on financial assets: Policy applicable from January 2018

The company implemented IFRS 9 assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost with the exposure arising from loan commitments and financial guarantee contracts. The company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

— An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
— The time value of money; and
— Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(ii) Modifications of loans

The company sometimes renegotiates or otherwise modifies the contractual cash flows of loans and advances to customers. When this happens, the company assesses whether or not the new terms are substantially different to the original terms. The company does this by considering, among others, the following factors:

— If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
— Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial Assets (continued)

(ii) Modifications of loans (continued)

— Significant extension of the loan term when the borrower is not in financial difficulty.
— Significant change is interest rate.
— Change in the currency of the loan.
— Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the company derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the company transfers substantially all the risks and rewards of ownership, or (ii) the company neither transfers nor retains substantially all the risks and rewards of ownership and the company has not retained control.

The company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the company:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from assets without material delays.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

a. Financial assets (continued)

(iii) Derecognition other than on a modification (continued)

Collateral (shares and bonds) furnished by the company under standard repurchase agreements and securities lending and borrowings transactions are not derecognized because the company retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the company retains a subordinated residual interest.

b. Financial Liabilities

The company's holding in financial liabilities represents mainly other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

(i) Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the company and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

b. Financial Liabilities (continued)

(ii) Derecognition of financial liabilities (continued)

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(i) Leases

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

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

(j) Post-employment benefit obligations

(i) Defined benefit scheme

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations - Continued

(i) Defined benefit scheme - continued

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

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

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

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.

(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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations (continued)

(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.

(k) Property and equipment

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

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

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

	Rate %
Furniture and fittings	12.50
Computers, copiers and faxes (under office equipment)	25.00
Computers hardware - server (under office equipment)	12.50
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.

(l) Intangible assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of non-financial assets

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

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

(n) Cash and cash equivalents

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

(o) Provisions

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

(p) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities as disclosed in Note 28. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit and loss account in the year in which it is determined.

(q) Comparatives

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations

The company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The company has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the company. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section below.

(i) Classification and measurement of financial instruments

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 July 2018.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Classification and measurement of financial instruments - continued

Financial Assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39 KShs '000**	**New carrying amount under IFRS 9 KShs '000**
Cash and bank balances	Loans and receivables	Amortised cost	6,020	6,017
Deposits with financial institutions	Loans and receivables	Amortised cost	188,974	187,521
Loans and advances to customers	Loans and receivables	Amortised cost	500,081	496,650
Loans and advances to staff	Loans and receivables	Amortised cost	26,357	26,356
Equity investments	Available for sale	Fair value through other comprehensive income (FVOCI)	28,745	27,710
Other assets (financial)	Loans and receivables	Amortised cost	2,148	2,129
Total financial assets			752,325	746,383
Financial liabilities				
Other liabilities	Other financial Liabilities	Other financial Liabilities	(16,302)	(16,302)
Total financial liabilities			(16,302)	(16,302)

(ii) Reconciliation of statement of financial position balances from the earlier version of IAS 39 to the final version of IFRS 9

The company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the company carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 30 June 2018 to the new measurement categories under IFRS 9 on 1 July 2018:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Reconciliation of statement of financial position balances from the earlier version of IAS 39 to the final version of IFRS 9 (continued)

	IAS 39 carrying amount 30 June 2018	Reclassifications	Remeasurement	IFRS 9 carrying amount 1 July 2018
	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets				
Cash and bank balances	6,020	-	(3)	6,017
Deposits with financial institutions	188,974	-	(1,453)	187,521
Loans and advances to customers	500,081	-	(3,531)	496,550
Loans and advances to staff	26,357	-	(1)	26,356
Equity investments	28,745	-	(1,035)	27,710
Other assets (financial)	2,148	-	(19)	2,129
Total financial assets	752,325	-	(6,042)	746,283

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 July 2018:

Financial asset	**Impairment under IAS 39**	**Reclassifications**	**Remeasurement**	**Expected credit loss under IFRS 9**
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and bank balances	-	-	3	3
Deposits with financial institutions	-	-	1,453	1,453
Loans and advances to customers	109,123	-	3,531	112,654
Loans and advances to staff	-	-	1	1
Equity investments	5,000	-	1,035	6,035
Other assets (financial)	-	-	19	19
Gross adjustment on initial application of IFRS 9	**114,123**	**-**	**6,042**	**120,165**
Deferred tax @ 30%	-	-	(1,813)	(1,813)
Adjustment on initial application of IFRS 9 net of tax	**114,123**	**-**	**4,229**	**118,352**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 15 Revenue form contracts with customers
This standard became effective on 1 January 2018 and replaced the existing revenue standards and their related interpretations. The standard set out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The standard however does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the company's revenue streams. The company identified and reviewed the contracts with customers that are within the scope of this standard and concluded that the adoption of IFRS 15 did not materially impact the company's revenue recognition models and there were no material transition adjustments required.

(iv) New and revised standards and interpretations that have been issued but are not yet effective

The company has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 July 2018, and the directors do not plan to apply any of them until they become effective.

Below is a list of all such new or revised standards and interpretations with their effective dates and provides reasonably estimable information relevant to assessing the possible impact that application of them will have on the company's financial statements in the period of initial application.

IFRS 16 Leases (issued in January 2016)
The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.
Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the company is the lessee.

IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017)
The Interpretation, applicable to annual periods beginning on or after 1st January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 counter-parties to trading instruments might default on their obligation is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

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

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

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

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

Carrying amount:	**2019 KShs'000**	**2018 KShs'000**
Loans and advances to customers - net (Note 17)	643,613	526,437
Deposits with financial institutions (Note 16)	233,013	188,974
Interest receivable on deposits (Note 18)	1,849	2,147
Cash at bank (Note 15)	2,552	5,971
Total	**881,027**	**723,529**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 643.6 million (2018 – KShs 526 million), which is 73% of total financial assets (2018 – 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:

	2019 KShs'000	2018 KShs'000
Neither past due nor impaired	437,500	254,162
Past due but not impaired	64,149	115,602
Individually impaired	294,735	265,796
Gross loans and advances	796,384	635,560
Less: allowance for impairment (Note 17)	(152,771)	(109,123)
Net loans and advances	643,613	526,437

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019 (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 570.5 million at 30 June 2019 (2018: Kshs 160.90 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:	2019	2018
At 30 June	1,628%	1,196%
Average for the year	1,723%	1,208%
Highest for the year	1,928%	1,365%
Lowest for the year	1,279%	999%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 2019	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	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**
At 30 June 2018					
Financial liabilities					
Other liabilities	2,872	9,568	3,862	-	16,302
Total financial liabilities	**2,872**	**9,568**	**3,862**	**-**	**16,302**

(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:

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

At 30 June 2019	Effective interest rate	Interest bearing KShs'000	Non-interest bearing KShs'000	Total KShs'000
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		-	14,464	14,464
Lenders	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**
At 30 June 2018				
Assets				
Cash in hand		-	49	49
Bank deposits and balances	9.0%	188,974	5,971	194,945
Loans and advances to customers	13.0%	438,947	87,490	526,437
Equity investments (unquoted)		-	28,745	28,745
Other assets		-	4,139	4,139
At 30 June 2018		**627,921**	**126,394**	**754,315**
Equity and liabilities				
Other liabilities		-	16,302	16,302
At 30 June 2018		-	16,302	16,302
Interest rate sensitivity – 2018		**627,921**	**110,092**	**738,013**

A change of 1 % in interest rates would have increased or decreased profit or loss by KShs 7.2 million (2018 – KShs 7.3 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:

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

	2019			2018		
Assets	**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	20	-	-	-	-	-
Bank deposits and balances	235,565	(2,356)	2,356	188,974	(1,890)	1,890
Loans and advances to customers	643,613	(6,436)	6,436	526,437	(5,264)	5,264
Equity investments (unquoted)	29,177	-	-	28,745	-	-
Other assets	35,499	-	-	4,139	-	-
	943,874	**(8,792)**	**8,792**	**748,295**	**(7,154)**	**7,154**
Equity and liabilities						
Other Liabilities	14,464	-	-	-	-	-
Lenders	212,980	2,130	(2,130)	16,302	-	-
	227,444	**2,130**	**(2,130)**	**16,302**	**-**	**-**
Net interest income increase/(decrease)	-	(6,662)	6,662	-	(7,154)	7,154
Tax charge at 30%	-	1,999	(1,999)	-	2,146	(2,146)
Impact on profit or loss after tax	-	**(4,663)**	**4,663**	-	**(5,008)**	**5,008**

(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 2019 and 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 2019	USD KShs'000	Euros KShs'000	Total KShs'000
Assets			
Cash and balances with banks	196	6	202
Equity investment (Afrexim)	25,868	-	25,868
Total assets	**26,064**	**6**	**26,070**
At 30 June 2018			
Assets			
Cash and balances with banks	216	8	224
Equity investment (Afrexim)	7,101	-	7,101
Total assets	**7,317**	**8**	**7,325**

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 2.6 million (2018 – KShs 0.732 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 and

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Operational risk (continued)

— procedures to address the risks identified
— requirements for the reporting of operational losses and proposed remedial action
— development of contingency plans
— training and professional development
— ethical and business standards
— risk mitigation, including insurance where this is effective.

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

(e) Capital management

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

(f) Compliance and regulatory risk

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

	2019	2018
6. NET INTEREST INCOME	**KShs'000**	**KShs'000**
Interest income on loans	74,465	78,871
Interest income on staff loans	1,109	2,090
Interest income on fixed deposits	21,421	20,652
Interest expense on LOC	(2,970)	-
	94,025	**101,613**
7. NON-INTEREST INCOME		
Appraisal fees	**7,166**	**5,785**
8. OTHER OPERATING INCOME		
Dividend income	511	488
Write back –debtors	4,585	-
	5,096	**488**

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

9. NET IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2019 KShs'000	2018 KShs'000
Net increase in provision charged to profit or loss (Note 17(c))	40,116	31,619
Cash	1	-
Deposits	656	-
Other assets	(3)	-
	40,770	**31,619**

10. OTHER INCOME

Exchange loss	(17)	(195)
Miscellaneous income receipt	3	2
	(14)	**(193)**

11. OPERATING EXPENSES

Employee benefits expense:

Employment:		
Salaries and wages	49,226	37,864
Staff and other expenses	6,908	13,641
Staff medical	4,500	4,190
Staff training	1,009	1,820
Gratuity	1,108	2,050
Pension fund		316
Movement in defined benefit assets through profit or loss	-	-
Total employment costs	**62,751**	**59,881**

The average number of persons employed by the Company during the financial year was 20 (2018 – 21). 6 employees were management (2018 – 6) and 14 employees were non-management (2018 – 15).

Administrative expenses:	2019 KShs'000	2018 KShs'000
Non-executive directors' remuneration:		
– Fees and allowances (Note 29 (b))	7,774	5,190
Security expenses	582	674
Office cleaning and maintenance	792	675
Subscriptions	1,293	1,269
Advertising, publicity and donations	3,256	2,040
Insurance	333	360
Audit fees – Auditor-General	221	221
Audit fees – KPMG	2,212	2,212
Overprovision in prior year audit fees	-	(808)
Professional services	9,731	4,728
Vehicle running and maintenance	694	452
Telephone, internet and postage expenses	2,070	2,014
Travelling and entertainment	5,396	6,086
Printing and stationery	587	349
Licenses	175	162
Bank charges	178	150
Repairs and maintenance	559	1,037
Other expenses	1,304	(1,661)
Total administrative expenses	**37,157**	**25,150**

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

11. OPERATING EXPENSES (Continued)

	2019	2018
Administrative expenses: (continued)	**KShs'000**	**KShs'000**
Operating lease expense:		
Rent and service charge	8,945	8,333
Parking fees	1,253	1,253
Total operating lease expenses	**10,198**	**9,586**
Depreciation and amortisation:		
Amortisation of intangible assets	417	450
Depreciation and write offs of property and equipment	2,707	2,700
Total depreciation and amortisation expenses	**3,124**	**3,150**

12. LOSS BEFORE TAX

(a) Items charged

The following items have been charged in arriving at loss before tax:

	2019	2018
	KShs'000	**KShs'000**
Directors' remuneration:		
- Salary	9,986	9,758
- Fees and allowances (Note (29(b))	7,774	5,190
Employee benefits expense (Note 12(b))	3,922	3,763
Depreciation of property and equipment (Note 21)	2,707	2,700
Amortisation of intangible assets (Note 22)	417	450
Operating lease expenses	10,198	9,586
Net foreign exchange gain	(17)	(196)
Auditor's remuneration (Auditor-General and KPMG)	2,433	2,433

(b) Employee benefits expenses

The following items are included in employee benefits expense:

	2019	2018
Defined contribution scheme	3,866	3,707
National Social Security Fund	56	56
	3,922	**3,763**

13. INCOME TAX

(a) Income tax expense

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

	2019	2018
	KShs'000	**KShs'000**
Loss before income tax	(47,727)	(21,693)
Tax calculated at a rate of 30%	(14,318)	(6,508)
Tax effect of:		
Expenses not deductible for tax purposes	2,521	954
Income not deductible for tax purposes	(153)	(146)
Movement in deferred income tax through profit or loss not recognised (Note 23)	11,950	5,700
Tax expense	-	-

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

13. INCOME TAX (Continued)

	2019 KShs'000	2018 KShs'000
(b) Current tax recoverable		
Balance at 1 July	28,580	25,689
Withholding tax credit	3,214	2,891
Balance at 30 June	**31,794**	**28,580**

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.

	2019 KShs'000	2018 KShs'000
Net loss attributable to shareholders (KShs'000)	(47,735)	(21,693)
Weighted average number of ordinary shares in issue during the year ('000)	40,501	40,501
Basic earnings per share (KShs)	(1,18)	(0.54)

There were no potentially dilutive shares outstanding at 30 June 2019 and 30 June 2018. Diluted earnings per share are therefore the same as basic earnings per share.

15. CASH AND BANK BALANCES

	2019 KShs'000	2018 KShs'000
Cash in hand	19	49
Cash at bank	2,552	5,971
	2,571	6,020

16. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2019	2018
KCB Bank Kenya Limited	95,666	100,449
Commercial Bank of Africa Limited	-	27,180
The Co-operative Bank of Kenya Limited	137,189	61,189
African Export - Import Bank	158	156
	233,013	188,974

The weighted average effective interest rate on placement with banks at 30 June 2019 was 8% (2018 – 9%).

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

17. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	2019 KShs'000	2018 KShs'000
Commercial loans	711,627	568,684
Interest and other fees receivable	58,084	40,519
Employee loans	26,673	26,357
Gross loans and advances	796,384	635,560
Less: Provision for impairment of loans and advances		
- Stage 1	18	2,810
- Stage 2	34,796	1,327
- Stage 3	117,957	104,986
	152,771	109,123
Net loans and advances	643,613	526,437

(a) Loans and advances to customers at amortised cost

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 July 2018	254,162	115,602	265,796	635,560
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 2	(76,693)	76,693	-	-
- Transfer from stage 1 to stage 3	(11,882)	-	11,882	-
- Transfer from stage 2 to stage 3	-	(115,602)	115,602	-
New financial assets originated or purchased	294,002	-	-	294,002
Financial assets that have been derecognised	(22,090)	(12,544)	(98,544)	(133,178)
Gross carrying amount as at 30 June 2019	**437,499**	**64,149**	**294,736**	**796,384**

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Loss allowance as at 30 June 2018	2,810	1,327	104,986	109,123
Restatement on adoption of IFRS 9	4,859	(1,327)	-	3,532
Loss allowance as at 1 July 2018	7,669	-	104,986	112,655
- Transfer from stage 1 to stage 2	(6,814)	34,796	-	27,982
Net movement in new financial assets originated or purchased	(837)	-	12,971	12,134
Loss allowance as at 30 June 2019	**18**	**34,796**	**117,957**	**152,771**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 2019				
At 1 July 2018	7,669	-	104,986	112,655
(Decrease) /increase in impairment provision	(7,651)	34,796	12,971	40,116
At 30 June 2019	**18**	**34,796**	**117,957**	**152,771**
Charge/(credit) to profit or loss				
(Decrease) /increase in impairment provision	(7,651)	34,796	12,971	40,116
	(7,651)	34,796	12,971	40,116

(c) Impairment loss on loans and advances

	2019 KShs'000	2018 KShs'000
Balances held as at 1 July	109,123	77,254
Net increase in provision charged to profit or loss (Note 9)	40,116	31,619
Restatement on adoption of IFRS 9	3,532	-
Recoveries	-	250
As at 30 June	**152,771**	**109,123**

(i) Concentration of risk

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

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

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(i) Concentration of risk (continued)

	2019 KShs'000	2019 %	2018 KShs'000	2018 %
Manufacturing	-	-	11,882	1.9
Food and animal feeds	142,260	17.9	92,166	14.5
Engineering	139,923	17.6	115,602	18.2
Business services	-	-	1,091	0.2
Mining and quarrying	128,559	16.1	105,957	16.7
Transport, communications , power& Energy	176,707	22.3	52,072	8.2
Healthcare services	80,010	10.0	76,690	12.1
Building & Construction	31,059	3.9	133,508	21.0
Others	71,193	8.9	20,235	3.1
Staff loans	26,673	3.3	26,357	4.1
	796,384	**100.0**	**635,560**	**100.0**

(ii) ***Maturity analysis***	2019 KShs'000	2018 KShs'000
Matured and maturing within 1 year	273,267	196,613
Less: Provision for impaired loans and advances	(152,771)	(109,123)
	120,496	87,490
Maturing after 1 year	523,117	438,947
	643,613	**526,437**

18. OTHER ASSETS

Prepayments	722	942
Interest receivable on deposits	1,849	2,147
Deposits and other recoverables	1,134	1,050
	3,705	**4,139**

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

19. FINANCIAL ASSETS (UNQUOTED)

Unquoted investments

	2019 KShs FVOCI	2018 KShs AFS
As at 30 June	33,745	33,928
Day 1 adjustment	(36)	-
Restated balance as at 1 July	**33,709**	**33,928**
Translation differences	86	(183)
Fair value adjustments	1,382	-
	35,177	33,745
Impairment	(6,000)	(5,000)
Fair value – 30 June	**29,177**	**28,745**

	Ownership	1-Jul-18	Fair value movement on Day 1	Fair Value Gains/(losses) 2018/19	Translation differences	Impairment loss	Fair Value 30-June-19
Nzoia Sugar Company Limited	0.9%	5,000		-	-	(5,000)	-
South Nyanza Sugar Company Limited	0.3%	1,000		-	-	(1,000)	-
Consolidated Bank of Kenya Limited	1.0%	20,800	(15,969)	(1,522)	-	-	3,309
African Export - Import Bank	0.3%	6,945	15,933	2,904	86	-	25,868
		33,745	**(36)**	**1,382**	**86**	**(6,000)**	**29,177**

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 2019 was USD 52,648= (2018: USD 47,243)

20. DEFINED BENEFIT ASSET

The Company's Defined Benefit Scheme was closed as per the Government stipulation on 31 December 2011. A deed of closure was duly executed in August 2012 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 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.

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

21. PROPERTY AND EQUIPMENT

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**

2018:	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 2017	9,599	20,889	5,369	2,441	310	38,608
Additions	-	662	319	-	-	981
Transfer from WIP	-	310	-	-	(310)	-
At 30 June 2018	9,599	21,861	5,688	2,441	-	39,589
Depreciation						
At 1 July 2017	5,115	18,684	5,152	2,311	-	31,262
Charge for the year	1,512	960	98	130	-	2,700
At 30 June 2018	6,627	19,644	5,250	2,441	-	33,962
Net carrying amount	**2,972**	**2,217**	**438**	**-**	**-**	**5,627**

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

22. INTANGIBLE ASSETS – Software

	Software costs KShs'000	Work in progress (WIP) KShs'000	Total KShs'000
2019:			
Cost			
At 1 July 2018	7,603	-	7,603
Additions	-	-	-
At 30 June 2019	7,603	-	7,603
Amortisation			
At 1 July 2018	6,395	-	6,395
Charge for the year	417	-	417
At 30 June 2019	6,812	-	6,812
Net carrying amount	**791**	**-**	**791**
2018:			
Cost			
At 1 July 2017	7,603	215	7,818
Write offs	-	(215)	(215)
At 30 June 2018	7,603	-	7,603
Amortisation			
At 1 July 2016	5,945	-	5,945
Charge for the year	450	-	450
At 30 June 2017	6,395	-	6,395
Net carrying amount	**1,208**	**-**	**1,208**

23. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30 % (2018 – 30%). Deferred tax assets and liabilities, and the deferred tax charge in profit or loss account is attributable to the following items:

30 June 2019	**At 1 July 2018 KShs '000**	**Adjustment on initial application of IFRS 9 KShs '000**	**Movement in profit & loss KShs '000**	**Movement in OCI KShs '000**	**At 30 June 2019 KShs '000**
Deferred income tax asset					
Property and equipment	1,242	-	(236)	-	1,006
Intangible assets	(105)	-	-	-	(105)
Provisions for doubtful debts	1,271	-	(1,271)	-	-
Provisions for leave	813	-	(70)	-	743
Unrealised exchange loss	1	-	(1)	-	-
Impairment loss allowance	-	1,813	-	-	1,813
Fair value loss	-	-	-	(414)	(414)
Tax losses carried forward	210,716	-	13,528	-	224,244
Net deferred tax asset	213,938	1,813	11,950	(414)	227,287
Deferred tax asset not recognised	(213,938)	(1,813)	(11,950)	-	(227,287)
Deferred tax liability	-	-	-	414	-

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

23. DEFERRED INCOME TAX (continued)

30 June 2018	At 1 July 2017 KShs '000	Prior year adjustment KShs '000	Movement in profit & loss KShs '000	At 30 June 2018 KShs '000
Deferred income tax asset				
Property and equipment	1,249	-	(7)	1,242
Intangible assets	(114)	-	9	(105)
Provisions for doubtful debts	533	-	738	1,271
Provisions for leave	753	-	60	813
Unrealised exchange loss	4	-	(3)	1
Tax losses carried forward	205,813	-	4,903	210,716
Net deferred tax asset	208,238	-	5,700	213,938
Deferred tax asset not recognised	(208,238)	-	(5,700)	(213,938)
	-		-	-

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 ad in the nine years succeeding in the year in which they occurred.

The total tax losses as at 30 June 2019 were KShs 747,478,424 (2018 – KShs 702,386,667). The tax losses will expire as follows:

Arising in:	**Tax losses KShs'000**	**Expiring:**
2010 and earlier	(579,913)	30 June 2019
2011	(27,271)	31 June 2020
2014	(22,751)	30 June 2023
2017	(56,107)	30 June 2026
2018	(16,344)	30 June 2027
2019	(45,092)	30 June 2028
Tax losses carried forward	**(747,478)**	

A deferred tax asset of KShs 227,287,125 as at 30 June 2019 (2018 – KShs 213,937,829) 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

	2019 KShs'000	2018 KShs'000
Sundry creditors	2,477	2,710
Accruals	7,826	9,667
Other liabilities	135	63
Provision for gratuity (See below)	4,026	3,862
	14,464	**16,302**

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

24. OTHER LIABILITIES (continued)

	2019 KShs'000	2018 KShs'000
Gratuity movement		
At 1 July	3,862	2,573
Additional accrual	2,968	3,401
Payments during the year	(2,804)	(2,112)
At 30 June	**4,026**	**3,862**

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 operationalisation 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.

Up to the end of the financial year 2018/19;7 projects with a total application of KShs 554.2 million had been approved and submitted to EXIM who had approved seven (7) projects with disbursements as at 30 June 2019 amounting to KShs 210 million as detailed here below:

	Project	Disbursement date	Amount (USD)	Rate	Interest rate(%)	Amount disbursed KShs '000	Interest Expense KShs '000	Total KShs '000
1	Vega	15-Nov-18	78,500	102.91	4	8,078	205	8,283
2	Timber	26-Dec-18	650,389	101.82	4	66,225	1,376	67,601
3	Vega	11-Jan-19	29,100	101.75	4	2,961	56	3,017
4	Timber	28-Feb-19	758,787	100.09	4	75,944	1,038	76,982
5	Vega	12-Mar-19	39,400	99.61	4	3,925	48	3,973
6	Timber	20-May-19	325,194	101.11	4	32,881	153	33,034
7	Blue Nile	20-May-19	197,765	101.11	4	19,996	94	20,089
	Total disbursement		**2,079,135**			**210,010**	**2,970**	**212,980**

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

26. SHARE CAPITAL

	No. of shares	Issued and paid up share capital KShs'000
At 1 January and 30 June 2019		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	2,647,500	52,950
	40,501,000	**810,020**
At 1 January and 30 June 2018		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	2,647,500	52,950
	40,501,000	**810,020**

The total authorised share capital is KShs 1,000,000,000 (2018 – KShs 1,000,000,000) made up of 46,000,000 (2018 – 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.

The percentage shareholding at 30 June 2019 and 30 June 2018 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. CASH AND CASH EQUIVALENTS

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

	2019 KShs'000	2018 KShs'000
Cash and bank	2,571	6,020
Deposits with financial institutions	233,013	188,974
	235,584	**194,994**

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

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

28. OFF BALANCE SHEET COMMITMENTS

Operating lease commitments

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

	2019 KShs'000	2018 KShs'000
Not later than 1 year	9,013	8,552
Later than 1 year and not later than 5 years	14,212	23,225
	23,225	**31,777**

29. RELATED PARTY TRANSACTIONS

		2019	2018
(a)	**Chief Executive Officer (CEO) and senior management emoluments**	**27,370**	**28,448**
(b)	**Directors' emoluments**		
	Directors allowances (Note 20 c)	5,445	3,410
	Directors expenses	824	253
	Directors fees	1,505	1,527
		7,774	5,190
	CEO expenses	9,986	9,758
		17,760	**14,948**
(c)	**Directors allowances**		
	Prof. Michael Bowen	1,506	564
	Michael Kiswili	-	171
	Hillary Korir	462	615
	Emily Njuki	530	-
	Edward Kingi	587	-
	Representatives of Institutional Directors		
	(i) Treasury		
	Geoffrey Kimani	-	279
	Johnstone Oltetia	443	86
	(ii) MITC		
	John Mwendwa	-	150
	Patrick Mwangi	-	64
	Betty Maina	-	21
	Margaret Kigondu	144	-
	Henry Rithaa	243	-
	(iii) KNAC		
	Mark Gakuru	313	300
	Barbara Nguyu	43	64
	(iv) Kenya-Re		
	Jadiah Mwarania	150	150
	Michael Mbeshi	-	150
	Nicodemus Gekone	86	-
	Johnstone Ireri	64	-
	Beth Nyaga	21	-

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

29. RELATED PARTY TRANSACTIONS (Continued)

		2019 KShs'000	2018 KShs'000
(v)	ICDC		
	Edward Gitau	279	300
	Robert Chesire	21	-
	Richard Ochoi	-	21
(vi)	NBK		
	Wilfred Musau	43	156
	Henry Maosa	212	86
	Lawrence Aswani	-	43
(vii)	Office of the President		
	Maingi Inoti	234	147
	Christopher Ombega	64	43
		5,445	**3,410**

30. 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.

31. EVENTS AFTER THE BALANCE SHEET DATE

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

APPENDICES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019 (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 2018/19 and as such there were no auditor recommendations that were cited for follow up.

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

No Projects funded by development partners was implemented by IDB Capital Limited in the financial year 2018/19.

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