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REPORT

THE NATIONAL ASSEMBLY
PADOOS YAD

OF

DATE: 20 APR 2023

DAY:

Thursday

TABLED
BY:

Hon Owen Bayo MP
Deputy Speaker, Assembly

THE AUDITOR-GENERAL

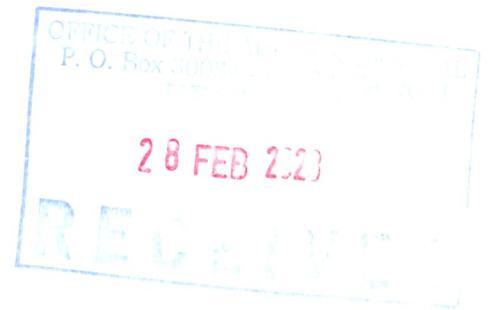
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ON

**INDUSTRIAL AND COMMERCIAL
DEVELOPMENT CORPORATION (ICDC)**

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



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2020

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION

VISION

Uplifting lives through Industrialization.

MISSION

To promote socio-economic development of Kenya by providing financial solutions for sustainable industrial and commercial enterprises.

BRAND PROMISE

Creation of sustainable wealth.

CORE VALUES

Professionalism, Integrity, Reliability, Teamwork, Innovation.

DIRECTORS

Bernard Muteti Mungata	Chairman – Retired 7 August 2020
William Haggai	Executive Director
Isaiah Cheruiyot	Retired 7 August 2020
Margaret Rigah	Retired 7 August 2020
Peterson Mwai	Retired 7 August 2020
Halima Ali Omar	Retired 7 August 2020
Francis Gitari	Retired 7 August 2020
Wilson M Waithaka	Retired 7 August 2020
Eliud K Sifuna	Retired 7 August 2020
John Ngumi	Chairman – Appointed 7 August 2020
Charles Kairu	Appointed 1 November 2019
Nicholas Gakiha	Appointed 5 November 2019
Carol Musyoka	Appointed 7 August 2020
Rita Okuthe	Appointed 7 August 2020
Njoroge Nani Mungai	Appointed 7 August 2020
Richard Kiplagat	Appointed 7 August 2020
General (Rtd) Joseph Raymond Kibwana	Appointed 7 August 2020
Jaswinder Bedi	Appointed 7 August 2020
Maj. Gen. (Rtd) Pastor Awita	Appointed 7 August 2020

REGISTERED OFFICE

Uchumi House
Aga Khan Walk
P.O Box 45519
00100 Nairobi

CORPORATION SECRETARY

Grace M. Magunga
Certified Public Secretary (Kenya)
P.O Box 45519
00100 Nairobi

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CORPORATE INFORMATION (CONTINUED)

CORPORATE CONTACTS

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DELEGATED AUDITOR

KPMG Kenya
Certified Public Accountants
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Waiyaki Way
P.O Box 40612 – 00100
Nairobi

BANKERS

KCB Bank Kenya Limited
Moi Avenue
P.O Box 30081 – 00100
Nairobi

NCBA Bank Kenya PLC
Wabera Street
P.O Box 30437 – 00100
Nairobi

Co-operative Bank of Kenya Limited
Uchumi House
Aga Khan Walk
P.O Box 40310 – 00100
Nairobi

LAWYERS

Grace M. Magunga Advocates, LLB, CPS (K)
Uchumi House 19th Floor
P.O Box 45519 – 00100
Nairobi

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

JOHN NGUMI - CHAIRMAN



Mr. John Ngumi was appointed to the Board of Directors on 7 August 2020. During his 35-year career, he has established himself as one of East Africa's foremost corporate and investment bankers.

John started his banking career at London's National Westminster Bank soon after completing his degree course from St. Peter's College, Oxford University with 1st Class Honours in Philosophy, Politics & Economics (PPE).

Mr. Ngumi has worked for various institutions including; Grindlays Bank, Citibank, Barclays Bank and Standard Bank of South Africa, in addition to co-founding one of Africa's first locally-owned investment banks; the Loita Capital Partners Group. He led trail-blazing transactions in diverse sectors: telecommunications, cement, real estate, energy, financial services, agri-business, manufacturing, aviation, energy, power and infrastructure and pioneered many of the financing techniques currently in use in East Africa.

Mr. Ngumi has served as a Board Chairman for a number of Government institutions, including Kenya Pipeline Company Limited and Konza Technopolis Development Authority. He also served as an inaugural director of the Communication Commission of Kenya, now Communications Authority.

WILLIAM HAGGAI - EXECUTIVE DIRECTOR



Mr. Haggai William has been the Executive Director since June 2018. Prior to this appointment, he was the Strategy and Risk Manager from July 2015. He has vast knowledge in Information Systems Management, Enterprise Risk Management, Strategic Planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Ltd.

Mr Haggai holds a Master of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor.

He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

He serves on the Board of Directors of Centum Investments PLC, Isuzu East Africa Limited, Almasi Beverages Ltd, Kenya Wines Agencies Ltd and Development Bank of Kenya.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

NJOROGE NANI MUNGAI - DIRECTOR



Njoroge Nani Mungai was appointed to the Board on 7 August 2020. He is a senior Partner at MMC Asafo in the capacity of Head of Projects, Infrastructure & Capital Markets. He has gained extensive knowledge and experience in the fields of Capital Markets, Sovereign Borrowing, Project Development and PPP arrangements. He provided transaction advisory services on the largest IPO in East and Central Africa which entailed the sale of 25% of the Government of Kenya's shareholding in Safaricom Ltd at the then Nairobi Stock Exchange (NSE). He has acted as a Legal advisor to the Kenya Airports Authority on the proposed airport concession of Jomo Kenyatta International Airport through a privately initiated investment proposal. He has also represented the owners and developers of electricity projects including wind, solar and geothermal projects in all aspects of conceptualization and development of the projects.

He holds a Bachelor of Laws (LLB) from The University of Nairobi and a Post Graduate Diploma from Kenya School of Law. He has also undertaken skills development courses in the areas of Oil and Gas at the Institute for Energy Law of the Center for America and International Law, Euro-money Legal at 7th African School for International Law, Mergers & Acquisitions in Johannesburg and Euro Money Course on Syndicated Loans in London.

CHARLES KAIRU - ALTERNATE DIRECTOR TO CS NATIONAL TREASURY

Mr. Charles Kairu was appointed to the Board of ICDC as an Alternate Director to the Cabinet Secretary, Treasury & Planning on 19 August, 2019.



He is an experienced Public Finance and Public Debt Management officer. He holds the position of a Deputy Director, Debt Management with the Public Debt Management office (PDMO), National Treasury.

He is in Charge of the Fiscal Risks and Portfolio Management Division in the Debt Policy, Strategy and Risk Management Department (Middle Office). He is currently working on finalizing Kenya's Public Debt & borrowing Policy, which is at the Cabinet Approval stage.

Mr. Kairu has also held other positions as alternate to the Cabinet Secretary, National Treasury & Planning at the National Irrigation Authority (NIA), Council of Murang'a University College and Board of Information Communication Technology (ICT).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

RITA OKUTHE – DIRECTOR



Rita Okuthe was appointed to the Board on 7 August 2020. She's the Chairperson of The Board of Directors of Kenya Pipeline (KPC) Limited a position to which she was appointed on August 7 2020. Rita has been a member of the KPC Board of Directors since 2018 serving as Chairperson of the Board Audit Committee.

Rita is a turnaround and marketing expert having worked in several blue-chip companies such as MTN and Etisalat. She has also worked for Safaricom Ltd since 2009 in various roles including Head of Consumer Business, Director Marketing and Chief Enterprise Officer.

Rita holds a bachelor's degree in Economics and a Masters Degree in Marketing. She is also an Executive Coach accredited by the Academy of Executive Coaching Ltd (AOEC) and serves as a non-executive member of the board of directors of various companies.

CAROL MUSYOKA- DIRECTOR



Carol Musyoka was appointed to the Board on 7 August 2020. She has several years of financial leadership with extensive experience in deal origination, negotiation, structuring and execution having been involved in several landmark corporate finance transactions in Kenya. Her executive management and board experience includes her role as the Corporate Director, Barclays Bank of Kenya as well as the Executive Director and Chief Operating Officer of K-Rep Bank Ltd, Kenya's first micro finance institution.

Carol has had considerable credit risk and corporate banking experience and training over her banking career, at both Barclays and Citibank. She currently serves as a non-executive director on the boards of directors of East Africa Breweries Ltd where she chairs the Board Numeration and Remuneration Committee as well as the Board Investment Committee, British American Tobacco Ltd and the national carrier, Kenya Airways, all of which are Nairobi Stock Exchange listed companies. She is also the chairperson of the Board of Business Registration Services, a parastatal created to oversee the Kenyan Companies Registry.

Carol holds a Bachelor of Law degree from the University of Nairobi and a Master of Law degree from Cornell University, USA.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

RICHARD KIPLAGAT – DIRECTOR



Richard Kiplagat was appointed to the Board of Directors on 7 August 2020. He is the Chairman of the Unclaimed Financial Assets Authority, UFAA, a State Corporation responsible for receiving, safeguarding and reuniting financial assets with their rightful owners.

Richard Kiplagat is also Group Director at Africa Practice (AP), a Pan African Strategic Advisory Firm with offices in London, Dar es Salaam, Perth, Casablanca, Johannesburg, and Lagos. He is also the Senior Stakeholder Advisor to business and Government leaders particularly in the Infrastructure, Energy, Oil and Gas sectors.

Richard Kiplagat currently serves on the board of directors of several organizations including Brand Africa, GearBox, Aga Khan University Advisory committee, Heart Attack Concern Kenya and Akiba Group of Schools. In the past, he has been a board member for Jamii Bora Bank where he was Chairman, Kenya ICT Federation where he was Vice Chairman, Kenya ICT Village, Kenya ICT Board, Kenya Youth Business Trust (Chairman), Allavida and Kenya National Chamber of Commerce.

Richard Kiplagat studied Economics and Political Science at the University of Toronto Canada, with a focus on the economics of development.

JASWINDER BEDI – DIRECTOR



Jaswinder Bedi was appointed to the Board of Directors on 7 August 2020. He is a textile graduate (1984) and has attended numerous executive business courses in Harvard Business School, IMD Business School and IIM Business School. His business acumen has been recognized by Government of Kenya and he was the recipient of a presidential award, Moran of the Burning Spear (MBS) in 2012 from H.E. President Mwai Kibaki. In 2016, he received another presidential award, Elder of the Burning spear (EBS) from H.E. President Uhuru Kenyatta.

Jaswinder is currently the Chairman Kenya Export Promotion and Branding Agency (BrandKE), Managing Director of Bedi Investments Limited, Executive Director of Fine Spinners Uganda Limited, Director of Kenya Private Sector Alliance (KEPSA) and a Member of Young Presidents Organization (YPO).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

GENERAL (RTD) JOSEPH R. KIBWANA – DIRECTOR



General (Rtd) Joseph R. Kibwana was appointed to the Board of Directors on 7 August 2020. He is currently the Chairman of the Board of Directors of Kenya Ports Authority.

A career military officer, he retired as the Chief of General Staff in 2005 and served as Chairman of Kenya Trade Network from 2011 to 2014 and 2015 to 2018. He also served as a Non-Executive director on the board of KCB Bank Group Ltd from 2012 to 2017; KCB Burundi from 2013 to 2015 and chairman of KCB South Sudan from 2015 to June 2020.

He's an alumni of Britannia Royal Naval College (UK), Faraday House Engineering College (UK), Royal Naval School of Electrical and Weapon Engineering (UK), the US Naval Staff College and US Naval War College.

He's a member of the Institute of Directors, Kenya

MAJ. GEN. (RTD.) PASTOR OMUDHO AWITTA – DIRECTOR



Maj. Gen. (Rtd.) Pastor Omudho Awitta joined the Kenya Armed Forces, now Kenya Defence Forces in 1973 as Officer Cadet and commissioned in 1974 in the rank of Second Lieutenant.

He served the Kenya Defence Forces for a period of 34 years and held a number of appointments both in the Kenya Navy and at the Department of Defence Headquarters.

He was appointed Commander of the Kenya Navy in 2001 and served in that capacity for five years until 2006 when he retired. He attended several courses in the United Kingdom and United States of America.

He holds Diplomas from the Institute of Purchasing and Supplies (UK), Material Handling (UK), Finance and Management (USA) and Strategic Military Studies from the National Defence College, Kenya.

His Military Honours include; Moran of the Golden Heart (MGH), Elder of the burning Spear (EBS) among others.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (CONTINUED)

NICHOLAS GAKIHA – ALTERNATE DIRECTOR TO THE PRINCIPAL SECRETARY STATE DEPARTMENT FOR INDUSTRIALIZATION



Mr. Nicholas Gakiha was appointed to the board on 5 November 2019.

Mr Gakiha represents the Ministry of Industry, Trade and Enterprise Development and is currently working in the Ministry's State Department for Industrialization. His public service career includes working for both the National and County Governments in various capacities that includes serving as the Provincial Industrial Development Officer for Nairobi Province, Country Industrial Development Officer for Nakuru County and the Director of Trade in the County Government of Meru.

Mr Gakiha holds a Master of Science Degree in Entrepreneurship and a Bachelor of Commerce Degree with a specialization in Business Administration. He has also undertaken skills development courses in the areas of Community Capacity & Rural Development in Japan, Policy formulation for Small & Medium Enterprises Development in Malaysia, Project Management and Strategic Leadership among others.

GRACE M. MAGUNGA – CORPORATION SECRETARY



Mrs. Grace Magunga has been the Corporation Secretary of ICDC since 2006. She has vast experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investments Ltd, Kenya National Trading Corporation Ltd and Focus Container Freight Station Ltd.

Mrs. Magunga holds a Bachelor of Law degree from the University of Nairobi, a Diploma in Legal Practice and is a Certified Public Secretary (CPS K). She also holds a Master of Science Degree in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

MANAGEMENT TEAM

William Haggai – Executive Director

Mr Haggai was appointed the Ag. Executive Director with effect from 6 June 2018 and was substantively appointed to the position on 16 December 2019.

He has vast knowledge in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation drawn from close to 19 years' experience with IDB Capital Limited. Mr Haggai holds a Master of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor. He has attended a wide range of short courses on development financing both locally and outside the country. He is a member of the Computer Society of Kenya, and the Institute of Directors Kenya.

He serves on the Board of Directors of Centum Investments PLC, Isuzu East Africa Limited, Almasi Beverages Ltd, Kenya Wines Agencies Ltd and Development Bank of Kenya

Mbatha Mbithi – Marketing Manager

Ms Mbithi is the Marketing Manager, a position she has held since 1 July, 2017. She was previously the Chief Manager, Operations. She has a solid background in Finance and Banking having worked in middle and senior management level positions in five commercial banks.

Prior to joining ICDC, she was Head of Credit at Family Bank Ltd. She also serves on the Boards of Directors of Eveready East Africa Ltd and Development Bank of Kenya Ltd.

Ms Mbithi holds a Master of Business Administration degree in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University. She is a member of the Kenya Institute of Management.

Grace M. Magunga – Corporation Secretary

Mrs. Grace Magunga has been the Corporation Secretary of ICDC since 2006. She has vast experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Almasi Beverages Limited, Funguo Investments Ltd, Kenya National Trading Corporation Ltd and Focus Container Freight Station Ltd.

Mrs. Magunga holds a Bachelor of Law degree from the University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary (CPS K). She also holds a Master of Science Degree in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology

Faith Nene – Human Resources & Administration Manager

Mrs. Nene is the Human Resources & Administration Manager since September 2005.

She has wide experience in Human Resource management spanning over 18 years gained at ICDC. She holds a Master of Science degree in Human Resources Management from the University of Manchester, UK and a Bachelor of Arts degree in Government & Philosophy from the University of Nairobi.

She is a member of Institute of Human Resource Management (IHRM).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

MANAGEMENT TEAM (CONTINUED)

Edward Gitau – Investments Manager

He has over 30 years' experience in financial analysis, investment appraisal, enterprise valuations and investment monitoring. He is a member of the Board of Directors of IDB Capital Ltd. He holds a master's degree in project management from Kenyatta University and a bachelor's degree in Economics and Statistics from the University of Nairobi.

He is a Certified Investments and Financial Analyst (CIFA).

Kennedy M. Wanderi – Finance Manager

Mr. Kennedy M. Wanderi is ICDC's Finance Manager since May 2014.

He has wide experience spanning over 20 years in Accounting, Financial and Investments management as well Strategy formulation and execution gained at ICDC. He served as the Ag. Investment Manager between April 2019 and August 2020. He also previously served as the Ag. Executive Director from July 2015 to June 2018.

He has previously served on the Board of Directors of various companies including Centum Investments PLC, Isuzu East Africa Ltd, Almasi Beverages Limited, Kenya Wine Agencies Ltd and Development Bank of Kenya Ltd.

He is currently a member of the Board of Directors of Minet Kenya Insurance Brokers Limited and Uchumi Supermarkets Limited.

He holds a Master of Business Administration degree in Finance and Banking, and a Bachelor of Business Management degree from Moi University. He is a Certified Public Accountant (CPA).

Herman Gacugi – Internal Audit Manager

Mr. Gacugi is the Audit Manager since November 2018.

He has over 11 years' experience in finance and banking, with close involvement in automated processes, E-Commerce, corporate governance, enterprise risk management, financial services regulatory framework, accounting, external and internal audit processes.

Prior to joining ICDC, he was a Management Accountant at Davis & Shirtliff supporting East African Subsidiaries, and has also served in middle and senior management level positions at Chase Bank and Commercial Bank of Arica Ltd.

Mr. Gacugi holds a Master of Science degree in ICT from Jomo Kenyatta University of Science and Technology (JKUAT); a Bachelor's degree in Commerce – Accounting from Egerton University. He is a Certified Public Accountant (CPAK) and a Certified Information Systems Auditor (CISA).

Ms. Leah Mumbi – Ag. Information Communication Technology (ICT) Manager

Leah Mumbi has been the Ag. ICT Manager since May 2020.

She has over fifteen (15) years experience in ICT, modern and emerging technologies in Networks, database systems, modern systems development and administration processes and data centre technologies including virtualization, open source technologies, systems security, financial systems, grid and cloud computing having previously worked in both private and public sector.

Ms. Mumbi holds a Master of Business Administration degree in Information Systems from the University of Nairobi and a Bachelor of Science Degree in Computer Science from Egerton University. She also holds other professional qualifications in Projects Management, Systems Administration and development, Computer Networking and Accountancy (ITIL, Prince II, COBIT).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT

Overview of the Operating Environment



The year 2020 was largely characterized by outbreak of Covid-19 pandemic that necessitated stringent lockdowns across the globe. Most economies experienced steep income losses, depressed labour mobility, cut-back on private sector investments and general contraction in global trade and investment.

As a result of these disruptions, the global economy contracted by 3.5% compared to 2.8% growth realized in 2019. Advanced economies were particularly affected, contracting by 4.9% compared to 2.4% contraction in the Emerging Market and Developing Economies. Sub Saharan Africa recorded a contracted growth of 2.6% during the review period.

World Trade volumes contracted by 9.6% compared to 1% growth registered in 2019. Growth in global consumer prices slowed to 0.7% for advanced economies and 5% for Emerging and Developing economies while oil prices contracted by 32.7% compared to a contraction of 10.2% recorded in 2019.

On the domestic front, the lower economic growth experienced in the first half of the financial year was aggravated by Covid-19 containment measures in the second half of the year. As a result, the economy grew by 1% in 2020 compared to a growth rate of 5.4% in 2019. The first half of the year was characterized by a downturn in economic activity in most sectors of the economy, a rise in the rate of inflation and currency depreciation. However, heightened agricultural activities promoted economic growth during the financial period.

Economic activity was adversely affected by the imposition of Government measures to slow the spread of Covid-19. These measures include restriction of movement in and out of certain counties, closure of learning institutions and businesses, and cessation of international travels. Macroeconomic indicators were anchored in the need to cushion the economy from the worst effects of the pandemic and largely remained stable in the second half of the year.

Future outlook

The global economy is showing strong signs of recovery following the approval and roll-out of the Covid-19 vaccine coupled with fiscal and monetary interventions in advanced economies. Although a surge in cases and new variants of the virus continue to raise serious concerns, the global economy is projected to grow by 5.5% in 2021. Different economies are however likely to register varying growth levels based on access to medical interventions, effectiveness of policy support, exposure to cross country spillovers and structural economic characteristics before the Covid-19 health crisis.

The domestic economy is expected to bounce back as reflected in the 1% growth registered in the third quarter of 2020. Most of the Covid-19 containment measures that inhibited trade have since been lifted and most businesses are back on track. Macroeconomic indicators anchored on post Covid-19 recovery framework is likely to drive growth and the economy is expected to remain resilient and record a growth rate of 4.7% in 2021.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Financial performance

During the period, the Corporation realized a gross income of KShs 1.2 billion compared to KShs 2.02 billion realized the previous period. The decline in earnings is attributed mainly to one-off revenue items realized during the previous period amounting to KShs 726 million. These included a write-back of loans and grants of KShs 459 million and a gain on sale of investments of KShs 267 million. Dividend earnings also decline by KShs 78 million as a number of investee companies adopted a cautious approach in dividend declaration in order to conserve cash in the face of the effects of Covid-19 pandemic. An after tax profit of KShs 481 million was realized compared to KShs 638 million realized during the previous year.

New investments undertaken during the year amounted to KShs 616 million comprised of loans disbursements of KShs 473.3 million, KShs 42.5 million in Investment Property and KShs 100.2 million in other capital items.

The Corporation closed the year with a total asset position of KShs 26.5 billion compared to KShs 19.2 billion recorded in the prior year period. The increase in assets position was realized mainly from gains on revaluation of unquoted equity investments.

The Corporation will leverage on its strong asset position to deepen its role of financial intermediation to realize higher economic growth in the country.

Core business operations

During the financial year 2019 – 2020, the Corporation continued to provide financial services to meet the needs of its clients in a rapidly changing operating environment. The Corporation's investment philosophy entails sustainable and impactful investing approach which has been one of the key themes underlying its investment management throughout its history. In the execution of this goal, the Corporation undertook investments in loans and advances amounting to a total of KShs 473.3 million during the financial year 2019 – 2020 to provide financial solutions to various business undertakings which are geographically dispersed across the Country. Some of these investments are outlined below;

- (i) KShs 54.4 million in a flour milling and animal feeds plant in Machakos County to finance the construction of factory buildings, acquisition of machinery and equipment and to support the company's working capital requirements.
- (ii) KShs 3.9 million in a coconut oil processing plant in Kilifi County to support the operational budget of the company. The company is primarily targeting the international market which is expected to generate foreign exchange earnings to the country's economy.
- (iii) KShs 115.6 million for the construction of a four star hotel in Machakos county to cater for a growing tourism market in the region and offer a wide range of facilities including multi-purpose venues for conducting high-level business meetings, seminars and other conferencing facilities.
- (iv) KShs 146.9 million towards the establishment and operationalization of a fruit puree processing plant in Kwale County.
- (v) KShs 14.9 million invested in a company involved in the processing of Nile perch and seafood for local and export markets including Europe, China, South-East Asia, Middle East, Africa, U.S., and other worldwide destinations.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Core business operations (Continued)

- (vi) KShs 36.3 million towards acquisition of a company which manufactures single strength puree from fresh mangoes and bananas in Malindi, Kilifi County.
- (vii) KShs 51.4 million to a company located in Athi River which produces crude avocado oil for export market.
- (viii) KShs 18.9 million facility to a company dealing in packaging and export of fresh produce which primarily include French beans, assorted peas (garden peas, sugar snaps and snow peas) and passion fruits to the European market.

The outbreak of Covid-19 pandemic in Kenya during the third quarter of the financial year created a tough investment environment for the Corporation and its existing and potential clients. In order to limit the spread of the virus, the Government implemented a range of measures which included the introduction of a ban on international flights, cessation of movement in and out of major cities, imposition of a nationwide curfew and limitation of social events. These measures brought an adverse and direct impact on the Corporation's investments especially in the manufacturing and hospitality industries. The Corporation responded to these challenges by implementing various strategies to strengthen its position in order to effectively support the needs of its clients.

During the financial year 2020-2021 the Corporation will continue to focus on the operational plans required to effectively execute its long-term investment strategy in the face of heightened level of operational risk. The Corporation's actions during the ongoing health and economic crisis are essential to keeping its clients and Kenya's economy as a whole strong in light of the unprecedented social economic conditions.

County engagement

In line with the Government's Big Four Agenda, the Corporation identified development of industrial parks as a critical enabler to sustain industrial developments. In the year, ICDC entered into a partnership with Bungoma County that entailed carrying out a feasibility study to establish the viability of setting up an industrial park in Webuye. The feasibility study was completed and commercial viability identified and established. However, finalization was impacted by the Covid-19 pandemic. The Corporation is also collaborating with Machakos and Mombasa counties towards establishing the viability of developing industrial parks.

The Corporation also participated in various business forums across the country and reached out to an additional eight counties to intensify awareness of its products and identify potential projects for consideration.

Human capital

The Corporation recognizes people as a critical asset and key part for the success of its strategy execution. The key focus has been on ensuring high levels of employee satisfaction and motivation.

As a learning organization, and to ensure it retains emotionally intelligent and knowledgeable employees, the Corporation implemented various competency-based learning and development programs with a focus on Project Finance, Investments Appraisal, Risk Analysis, Coaching, Leadership and Management Development, all geared towards developing and improving specific competencies in employees that will ultimately give the Corporation a competitive edge.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Human capital (Continued)

Further, as an equal opportunity employer, the Corporation also implemented mainstreaming programmes on Gender, Disability, HIV/Aids and Drug and substance Abuse and prevention.

During the year 2020, the Corporation was also adversely affected by the Covid-19 Pandemic and in response employee health and safety became key priority. The Corporation remained vigilant in the fight against the spread of Covid-19 by ensuring all Government directives issued through the Ministry of Health regarding Covid-19 prevention were adhered to.

Corporate governance

ICDC has adopted high standards of corporate governance and applies strict rules of conduct, based on the best corporate governance practices. As part of this commitment, the Board of Directors adheres to best corporate governance by embracing the following principles:

- (a) Observing high standards of ethical and moral behavior;
- (b) Upholding personal integrity and honesty;
- (c) Acting in the best interests of ICDC in compliance with the Constitution, and all applicable laws;
- (d) Promoting industrial and economic growth in Kenya fairly and responsibly;
- (e) Recognizing the legitimate interests of all stakeholders through participation in policy formulation, resource allocation and access to public funds; and
- (f) Ensuring that ICDC acts as a good corporate citizen.

Board members have committed to act in the best interest of the organization and uphold their fiduciary responsibilities. They are expected to act honestly and in good faith so as to create a culture built on principles of integrity, accountability and transparency. As a state Corporation, ICDC regards good corporate governance a primary tenet of good performance. In this regard, our operations are undertaken in cognizance of regulations and statutory requirements necessary to put us in good stead with our stakeholders. Our operations are driven by the desire to maximize shareholder value while safeguarding the rights and interests of all stakeholders. The culture of good corporate governance permeates all levels of the Corporation starting with the Board of Directors. These measures have led to the continued success of the Corporation.

(i) Board of directors

The Board of Directors, as the custodian of the Corporation's resources recognizes its responsibility of providing leadership, strategic direction and control and is accountable to all stakeholders. It oversees risk management, investment decisions and ensures compliance with relevant laws and regulations. The Board has adopted and continues to adhere to Mwongozo, Code of Governance for State Corporations so as to deliver value to Kenyans in a transparent and accountable manner.

(ii) Appointment and composition

A new Board of Directors was appointed on 7 August 2020 to execute the vision of Kenya Transport and Logistics Network. The ICDC Board of Directors was vested with the responsibility of securing the achievement of the commercial vision of Kenya Transport and Logistics Network which was established under Presidential Executive Order No. 5 of 2020. There was compelling need to foster Kenya's competitiveness in the arenas of trade and ease-of-doing-business by enhancing synergy within the institutions mandated with the provision of port, rail and pipeline services. The network brings together the Kenya Ports Authority, Kenya Railways Corporation and Kenya Pipeline Company Limited. ICDC was charged with providing stewardship to ensure prosperity by collectively directing the Network's affairs.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

Corporate governance (Continued)

(ii) Appointment and composition (continued)

The Board comprises of ten (10) directors including the Chairman and the Executive Director. Six Board members are the Chairpersons of Kenya Ports Authority, Kenya Railways Corporation, Kenya Pipeline Company Limited, Unclaimed Financial Assets Authority, Postal Corporation of Kenya, Kenya Export Promotion and Branding Agency and Business Registration Service while two directors represent the National Treasury and the Ministry of Industry, Trade and Cooperatives. The Directors bring on board a wealth of experience and objective guidance on matters of strategy, management of corporate risk and resource utilization. After appointment of the new Board, the Board governance structures were reconstituted to align to the objectives of the Kenya Transport and Logistics Network. A new Board Charter and Board Committee terms of reference were developed and adopted.

(iii) Board meetings

The Board meets quarterly, with additional meetings convened as and when necessary with the approval of State Corporations Advisory Committee (SCAC).

(iv) Board evaluation

The Board undertakes annual self-assessment and evaluation under the guidance of the State Corporations Advisory Committee (SCAC) in order to improve the internal governance of the Board and its Committees. The Board has put in place a performance improvement program to ensure continuous improvement in its performance.

(v) Committees of the board

To effectively discharge its mandate, the Board has established the following four (4) Committees with specific terms of reference set out in each Committee's Charter:

(a) Board Risk and Audit Committee

The Committee supports the Board in fulfilling its oversight responsibility relating to the integrity of the Corporation's financial statements, financial reporting process, systems of accounting and financial controls. The Committee is responsible for the annual external audit of financial statements; performance of the Internal Audit and Risk functions. The Committee ensures that the Corporation has effective systems and processes of accountability and risk management.

(b) Human Resource, Governance and Legal Affairs Committee

The Human Resource, Governance and Legal Affairs Committee addresses issues pertaining to staff welfare, governance, legal compliance, stakeholder management and any other issues as may be delegated by the Board from time to time. Matters considered by this Committee include employee matters, good corporate governance practices and stakeholder management. It ensures that appropriate incentives and reward mechanisms are in place in the Corporation whilst maintaining the principles of equity and appropriateness of compensation. The Committee reviews relevant policies and recommends changes geared towards sustaining operations in an increasingly competitive business environment.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

CHAIRMAN'S STATEMENT (CONTINUED)

(v) Committees of the Board (Continued)

(c) Investments, Finance and Strategy Committee

The Investments, Finance and Strategy Committee is responsible for overseeing the Corporation's investment function, formulate investment policies, strategies and support the Board in matters pertaining to finance and investments, review interim financial reports and other functions as may be delegated by the Board. The Committee exercises oversight over implementation of the investments strategy.

(d) Logistics, ICT and infrastructure Committee

The Logistics, ICT and infrastructure Committee is responsible for implementation of the transport and logistics strategy and supporting the Board in matters pertaining technical infrastructure projects implementation, coordination and integration of the network's processes and services, coordination of transport and logistics policies, information sharing protocols and integration with other government agencies. The Committee exercises oversight over the Kenya Transport and Logistics Network.

Looking ahead

The Corporation aims at supporting new investments amounting to Ksh.5.3 billion in the next three years and accord special attention to strategies and initiatives that will fast track Post Covid-19 Recovery. A key area of focus will be the creation of 10 industries to generate 6,000 new job opportunities annually and add value to locally available raw materials while taking into account environmental concerns.

In addition, the Corporation will focus on implementation of Executive Order No. 5 of 2020 which created a framework for the management, coordination and integration of public investments in Port, Railway and Pipeline services under the Kenya Transport and Logistics Network (KTLN). The creation of the framework seeks to create synergies and enhance the efficiencies of the State agencies mandated to operate the public transport and logistic services to achieve Kenya's strategic agenda of becoming a regional logistics hub.

The Government, through The National Treasury, has also initiated the process of transferring ICDC's assets and liabilities and by extension its current business to the newly formed Kenya Development Corporation Ltd. Two other financial institutions, namely TFC and IDB Capital Ltd will also merge into the new Corporation to form a larger institution with an expanded capital base and sufficient capacity to play a more effective role in the economic development of the country. ICDC will continue to execute its new mandate of coordinating public investments in Port, Rail and Pipeline services under KTLN on behalf of the National Treasury as provided for in Executive Order No.5 of 2020.

On behalf of the Board, I wish to thank the management and the employees for the invaluable efforts in ensuring that the Corporation remains a key pillar in the development finance sector. My sincere gratitude to The National Treasury and Planning, other Government ministries and agencies, customers and other partners for the unwavering support and contribution made in the year 2019/2020.

I would also like to express my gratitude to fellow Board members for providing the required strategic direction and oversight which are critical for the continued success of the Corporation.

John Ngumi

Chairman

Date:

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

SUSTAINABILITY REPORT

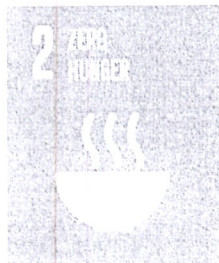
This report represents what sustainability means to ICDC and how it informs our strategic thinking and day-to-day operations. It gives an overview of our approach and performance in terms of the economic, environmental and social impact of our business operations.

The Corporation's mandate as a Development Finance Institution (DFI) is to facilitate the industrial and economic development of Kenya through the provision of various financial services. In the execution of this mandate, the Corporation seeks to align its investment, lending and CSR activities to the promotion of the Sustainable Development Goals. The pursuit of sustainable development is therefore integral to our activities rather than a separate agenda.

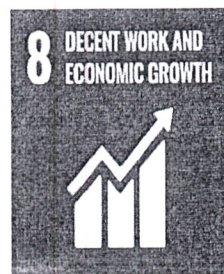
We have identified the following six SDG goals as being central to our operations and integrated them in our activities.



ICDC seeks to alleviate poverty levels in the country through employment creation. One of the key criteria in the selection of projects for funding is their potential for employment creation and priority is given to projects with a higher number of jobs created per shilling invested. Over the last five years, the Corporation has extended funding to various projects across the country to the tune of KShs 2.8 billion and helped to create over 7000 jobs.



In line with the sustainable goal of zero hunger, the Corporation has supported various enterprises in the Agro-Processing sector with a view to helping them add value to agricultural produce and improve the incomes of primary producers in the food value chain. This will encourage farmers to produce more and alleviate food shortages in the country. The Corporation has availed capital and credit to SMEs in this sector to the tune of Ksh.800m over the last five years.



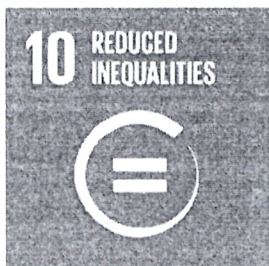
This SDG goal aims to achieve full and productive employment, and decent work, for all women and men. ICDC contributes to the achievement of this goal by observing best labour practices to ensure decent working conditions for its employees. The Corporation supports entrepreneurship and job creation and promotes the adoption of fair working conditions by enterprises that it has supported. Through its financing activities, the Corporation has helped in the creation of over 7000 jobs.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

SUSTAINABILITY REPORT (CONTINUED)



Investment in industry, innovation and infrastructure are crucial drivers of economic growth and development. Our core mandate of promoting industrial development is well aligned to the national aspirations of raising the contribution of manufacturing to GDP to 15% and the creation of 1 million jobs from the sector by 2022. The Corporation has aligned its strategic plan to play a more effective role in the growth of industry with a key emphasis on employment creation. Our goal has been to increase access by industrial and other enterprises supporting the manufacturing sector to financial services, including affordable credit, and their integration into value chains and markets. The Corporation has invested KShs 2.78 billion and supported 20 enterprises over the last five years.



We aspire to create a diverse and inclusive workforce and we have achieved a near gender balance among our employees with 44% of management being women. The Corporation also provides equal pay for equal work regardless of gender. In addition, 4% of our staff are persons with disabilities and we have installed the necessary infrastructure within our building to make it easier for staff, tenants and visitors to access to premises and use the facilities therein.



The Corporation recognizes the importance of environmental conservation as a mitigation against global warming. The desired industrial and economic development in the country will not be realized unless the adverse effects of climate change are properly mitigated. We have identified restoration of forest cover as an important component of reducing global warming and for this reason ICDC has participated in the annual tree planting exercises for the last five years and planted over 10,000 seedlings.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

The directors present their annual report together with the audited financial statements of Industrial and Commercial Development Corporation (the Corporation) for the year ended 30 June 2020 which show the state of the Corporation's financial affairs.

1. Principal activities

The principal activities of the Corporation are investment in venture capital, lending for commercial and industrial purposes and offering consultancy and related management advisory services. After year end, the Corporation's activities are planned to change to coordination of the state's investments in Ports, Rail and Pipeline Services through the Kenya Transport and Logistics Network on behalf of the National Treasury as disclosed at Note 35.

2. Results for the year

The table below highlights some of the key performance indicators over a period of 2 years:

Performance ratios	2020	2019
Operating profit %	41%	39%
Profit before income tax (KShs'000)	498,996	778,445
Return on assets	6%	4%
Net assets (KShs'000)	25,244,435	18,419,594

3. Dividends

The directors paid an interim dividend of KShs 50 million and do not recommend payment of final dividends.

4. Directors

The directors of the Corporation who served since 1 July 2019 up to the date of this report are set out on page 1.

5. Auditors

The Auditor-General is responsible for the statutory audit of the Corporation'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 was appointed by the Auditor-General to carry out the audit of Industrial and Commercial Development Corporation for the year ended 30 June 2020.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

6. Director's statement as to the information given to the auditors

The directors confirm that with respect to each director at the time of approval of this report:

- (a) There was, as far as each director is aware, no relevant audit information of which the Corporation's auditor is unaware; and
- (b) Each director has taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Corporation's auditor is aware of that information

7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on

BY ORDER OF THE BOARD

Grace M. Magunga
Secretary

Date:

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of Industrial and Commercial Development Corporation (ICDC) set out on pages 27 to 83 which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory notes.

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 Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya) 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.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results.

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

As disclosed in note 35, on 2nd July 2021, the Cabinet Secretary, The National Treasury and Planning issued legal Notice No. 113 of 2021 which vested all the assets, liabilities, rights and obligations of ICDC, IDB Capital Limited and Tourism Finance Corporation in Kenya Development Corporation. The statute establishing ICDC was not repealed and ICDC remained to coordinate the activities of Kenya Transport and Logistics Network. As a result, the financial statements are prepared on a going concern basis. In preparing the financial statements on a going concern basis, the Corporation has continued to apply requirements of International Financial Reporting Standards (IFRS), and the accounting policies applicable to a going concern, taking into account that the Corporation has ceased its lending business and assumed a separate coordination role for already existing government related entities.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Corporation's Board of Directors on

John Ngumi
Chairman

William Haggai
Executive Director

Date:

**INDEPENDENT AUDITOR'S REPORT (APPOINTED UNDER SECTION 23(1) OF
THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL
INDUSTRIAL AND COMMERCIAL DEVELOPMENT
CORPORATION**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Industrial and Commercial Development Corporation (“the Corporation”) set out on pages 27 to 83 which comprise the statement of financial position as at 30 June 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows 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 Industrial and Commercial Development Corporation as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Industrial and Commercial Development Corporation Act (Cap.445 of the Laws of Kenya).

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 Corporation in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (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 35 to the financial statements, which describes the effects of legal Notice No. 113 of 2nd July 2021 which vested all the assets, liabilities, rights and obligations of Industrial and Commercial Development Corporation (ICDC) into Kenya Development Corporation, with ICDC remaining to Coordinate the activities of Kenya Transport and Logistics Network. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

**INDEPENDENT AUDITOR'S REPORT (APPOINTED UNDER SECTION 23(1) OF
THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL
INDUSTRIAL AND COMMERCIAL DEVELOPMENT
CORPORATION (CONTINUED)**

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Valuation of unquoted investments in the financial statements	
See accounting policy Note 3(g) and Note 18 to the financial statements	
Key audit matter	How the matter was addressed
<p>The Corporation's investments are accounted for at fair value. The fair value of investments was determined by the Corporation using the Price to book multiple method, Enterprise value multiple, the discounted cash flow method (DCF) and the earnings multiple method.</p> <p>We determined investments measured using the DCF method, Price to book multiple, Enterprise Value Multiple and net asset value method to be a key audit matter because of the significance of the amount and the related estimation uncertainty, particularly on the use of significant judgment, relating to the cash flow projections, growth rates, terminal values, discount rates, Comparable price to book multiple and Weighted Cost of Capital.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> — Involving our in-house valuation specialists in assessing the appropriateness of the comparable average price to book net assets applied in valuation of unquoted investments, which included comparing the average price to book net asset to the sector averages for listed entities in the relevant market in which the investments are held; — Evaluating the inputs used by the Corporation in determining fair values by agreeing the inputs to supporting source documents, including agreeing the net assets data of the investee and comparable companies to their respective latest audited financial statements; — Evaluating the mathematical accuracy of the computations, including the determination of the comparable average price to net assets multiple used to determine fair value, discounts rates used, weighted cost of capital, cashflow projections, terminal values and comparable price to book multiples; and — Evaluating the adequacy of the disclosures made in the financial statements, including disclosures of key assumptions and judgements by reference to IFRS 13 <i>Fair Value Measurement</i>.

**INDEPENDENT AUDITOR'S REPORT (APPOINTED UNDER SECTION 23(1) OF
THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL
INDUSTRIAL AND COMMERCIAL DEVELOPMENT
CORPORATION (CONTINUED)**

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Impairment of loans and advances and trade and other receivables	
See accounting policy Note 3(g) and Note 5(a) to the financial statements	
Key audit matter	How the matter was addressed
<p>The company's loans and advances amounted to KShs 2,212,341,000 as at 30 June 2020 while trade and other receivables amounted to KShs 366,740,000.</p> <p>Significant judgement is involved in assessing the recoverability of trade and other receivables and in estimating the expected credit losses (ECL) required to be recognized. The key areas where we identified greater levels of management judgement and therefore increased audit focus was the determination of historical loss rate and the application of forward-looking information to determine the ECL.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> — Assessing the completeness and accuracy of data included in the impairment calculations; — Evaluating the design and implementation as well as the operating effectiveness of credit risk monitoring controls; — Involving our own internal specialists in assessing the appropriateness of macroeconomic variables of GDP, Lending rate, Inflation and exchange rate by comparing them to, market lending rates, published inflation rates and central bank exchange rates respectively; and — Evaluating the adequacy of financial statement disclosures in accordance with IFRS 7 <i>Financial Instruments Disclosures</i>.

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 Corporation for presentation to the National Assembly.

The financial statements of the Corporation for the year ended 30 June 2019 were audited by another delegated auditor who expressed an unmodified opinion on those statements on 13 May 2020.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *Industrial and Commercial Development Corporation Annual Report and Financial Statements at 30 June 2020* 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.

**INDEPENDENT AUDITOR'S REPORT (APPOINTED UNDER SECTION 23(1) OF
THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL
INDUSTRIAL AND COMMERCIAL DEVELOPMENT
CORPORATION (CONTINUED)**

Report on the audit of the financial statements (Continued)

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of the Corporation's financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Industrial and Commercial Development Corporation Act (Cap.445 of the Laws of Kenya) and for such internal control, as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Corporation'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 Corporation or to cease operations, or have no realistic alternative but to do so.

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 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.

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 Corporation'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 Corporation'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 Corporation 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.

**INDEPENDENT AUDITOR'S REPORT (APPOINTED UNDER SECTION 23(1) OF
THE PUBLIC AUDIT ACT, NO. 34 OF 2015) TO THE AUDITOR-GENERAL
INDUSTRIAL AND COMMERCIAL DEVELOPMENT
CORPORATION (CONTINUED)**

Report on the audit of the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with the 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.

From the matters communicated with the Directors, 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.

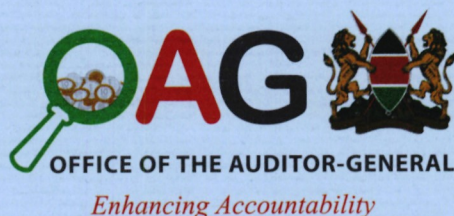
The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph Kariuki – Practice Certificate No. 2102.

For and on behalf of:

**KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
Nairobi**

Date:

REPUBLIC OF KENYA



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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC) FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Industrial and Commercial Development Corporation (ICDC) set out on pages 27 to 83, which comprise the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by KPMG Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Industrial and Commercial Development Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Industrial and Commercial Development Corporation Act, Cap 445 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Loans and Advances - Unconfirmed Value of Lending Portfolio

As disclosed in Note 21 to the financial statements, the statement of financial position reflects loans and advances totalling Kshs.2,212,341,000 lent by the Corporation to borrowers as at 30 June, 2020. The respective loan records indicated that approximately Kshs.32,117,310,000 or 94 % of the Corporation's total loans portfolio estimated at Kshs.34,329,651,000 as at 30 June, 2020 was considered by Management as non-recoverable. Securities related to some of the old non-performing loans being borrowers' ancestral lands, were reported to be missing, impaired, or irredeemable.

The Board of Directors has approved full provision for the losses totalling Kshs.32,117,310,000 against the Corporation's reserves as required by the International Financial Reporting Standard No.9.

In the absence of records on the old grants and loans, it was not possible to confirm the accuracy, completeness and validity of the loans and advances balance totalling Kshs.2,212,341,000 reflected in the statement of financial position as at 30 June, 2020.

Further, the high ratio of non-performing loans portfolio indicates that the Corporation is unable to recover most loans owed by its customers. As a result, the Corporation's capacity to lend to new borrowers and eventually attain its purpose and mandate may be constrained. Management has explained that the large proportion of the non-performing loans arose from Government policy that required the Corporation not to follow strict commercial lending criteria while disbursing loans.

2.0 Inventories - Failure to Comply with International Accounting Standard No. 2

The statement of financial position reflects inventory valued at Kshs.710,740,000 being housing properties built by the Corporation for sale. International Accounting Standard (IAS) No.2 requires reporting entities to measure inventories at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost. Paragraph 6 of IAS 2 defines NRV as the estimated selling price of an item in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

However, records provided for audit indicated that Management recognized the properties at the higher of cost and net realizable value. The difference between the cost and the net realizable value of the properties amounted to Kshs.99,458,801 and was significantly higher than the audit misstatement posting threshold (AMPT) of Kshs.6,270,000 established for the audit.

In the circumstance, the non-compliance with IAS 2 may have resulted in a material misstatement that may have adversely affected the true and fair view of the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Industrial and Commercial Development Corporation 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 qualified opinion.

Emphasis of Matter

Events After the Balance Sheet Date

I draw attention to Note 35 to the financial statements, which highlights Executive Order No. 5 of (August) 2020 that established a framework for Management of public port, rail and pipeline services. The Executive Order vested the mandate for coordinating the

State's investments in public port, rail and pipeline services to the Corporation through the Kenya Transport Logistics Network on behalf of The National Treasury.

In addition, Legal Notice No.113 of 2 July, 2021 vested all the assets, liabilities, rights and obligations of Industrial Development Capital Limited and Tourism Finance Corporation in a new entity, Kenya Development Corporation.

The effects of these changes on the operations of the Corporation are expected to become clear after the implementation of the Executive Order and Legal Notice is completed.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements for the year under review. The matters were addressed in the context of my 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 of the matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How the Matter was Addressed
1.0 Valuation of Unquoted Investments in the Financial Statements	
<p>As disclosed in Note 3(g) and Note 18 to the financial statements, the Corporations investments are accounted for at fair value. The fair value of investments was determined by the Corporation using the Price to Book Multiple Method, Enterprise Value Multiple (EVM), the Discounted Cash Flow Method (DCF) and the Earnings Multiple Method.</p> <p>I determined investments measured using the DCF, Price to Book Multiple, EVM and net asset value methods to be key audit matters because of the significance of the amount involved and the related estimation uncertainty, particularly on the use of significant judgment, relating to cash flow projections, growth rates, terminal values, discount rates, comparable price to book multiple and weighted cost of capital.</p>	<p>Procedures in this area included:</p> <ul style="list-style-type: none"> (i) Involving valuation specialists in assessing the appropriateness of the comparable average price to book net assets applied in valuation of unquoted investments, which included comparing the average price to book net asset to the sector averages for listed entities in the relevant market in which the investments are held; (ii) Evaluating the inputs used by the Corporation in determining fair values by agreeing the inputs to supporting source documents, including agreeing the net assets data of the investee and comparable companies to their respective latest audited financial statements; (iii) Evaluating the mathematical accuracy of the computations, including the determination of the comparable average price to net

	<p>assets multiple used to determine fair value, discounts rates used, weighted cost of capital, cash flow projections, terminal values and comparable price to book multiples; and</p> <p>(iv) Evaluating the adequacy of the disclosures made in the financial statements, including disclosures of key assumptions and judgements by reference to IFRS 13 Fair Value Measurement.</p>
<p>2.0 Impairment of Loans and Advances and Trade and Other Receivables</p>	
<p>As disclosed in Note 3(g) and Note 5 (a) to the financial statements, loans and advances disbursed by the Corporation amounted to Kshs.2,212,341,000 and trade and other receivables amounted to Kshs.366,740,000 as at 30 June, 2020.</p> <p>Significant judgement was involved in assessing the recoverability of trade and other receivables and in estimating the expected credit losses (ECL) required to be recognized.</p> <p>The key areas where we identified greater levels of Management's judgement and therefore increased audit focus was put on the determination of historical loss rates and the application of forward-looking information to determine the ECL.</p>	<p>Procedures in this area included:</p> <p>(i) Assessing the completeness and accuracy of data included in the impairment calculations;</p> <p>(ii) Evaluating the design and implementation as well as the operating effectiveness of credit risk monitoring controls;</p> <p>(iii) Involving internal specialists in assessing the appropriateness of macroeconomic variables of GDP, lending rate, inflation and exchange rate by comparing them to market lending rates, published inflation rates and Central Bank exchange rates respectively; and;</p> <p>(iv) Evaluating the adequacy of financial statement disclosures in accordance with IFRS 7 Financial Instruments Disclosures.</p>

I have fulfilled the responsibilities described in the auditor's responsibilities section of the 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, provide the basis for my audit opinion on the accompanying financial statements.

Other Matter

Prior Year Issues

The audit report for the financial year ended 30 June, 2019 highlighted unsatisfactory issues relating the Corporation's loans portfolio. Progress made by Management in resolving the issues will be confirmed after the matters are discussed by the National Assembly.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Industrial and Commercial Development Corporation annual report and financial statements as at 30 June, 2020 but does not include the financial statements and my report thereon.

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

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

When I read the rest of the other information in the annual report and conclude that there is a material misstatement therein, I am required to communicate the matter to the Board of Directors.

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, I confirm that, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, 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

Impairment of Investment in Property

Audit review of the Corporation's inventory of investments in properties indicated that during the year under review, the Board of Directors revised downwards the sale prices for two (2) of its housing projects with a view to increasing demand for the units. As at 30 June, 2020, twenty three (23) out of twenty eight (28) or 82% of one of the project completed in 2015 and twenty five (25) out of thirty six (36) or 69% of the second project completed in 2018 had not been sold. Records provided for audit indicated that the

Corporation incurs an average of Kshs.10 million each year to maintain the unsold units in the two projects. The Corporation valued the remaining units in the two projects at Kshs.340,458,801 and Kshs.469,739,955 respectively as at 30 June, 2020.

In view of the delay in the sale of a significantly large portion of the units in each of the two projects, and the high costs incurred on their maintenance, the Corporation is yet to realize profit on the money invested in the projects.

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 Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0. Long Overdue Rental Receipts

Examination of records on rental income revealed outstanding debts totalling Kshs.214,217,000 as at 30 June, 2020 owed by tenants at the Corporation's Head Office at Uchumi House in Nairobi. The records indicated that in the year under review, the Corporation made a provision for bad debts totalling Kshs.52,232,000 as indicated in Note 22 to the financial statements. The provision was equivalent to 24% of the sum owed by the tenants.

Failure to collect the rent in due time has put the public funds totalling Kshs.214,217,000 at risk of loss.

2.0 Unallocated Bank Credits – Other Payables

Audit verification of other payables indicated that receipts totalling Kshs.4,113,102 as at 30 June, 2020 were paid into the Corporation's bank by unidentified borrowers or trade debtors, as indicated in the following table:

Period Outstanding	Unallocated Bank Credits (Kshs)
One year or less	2,956,409
Between one (1) and five (5) years	639,566
More than five (5) years	517,126
Total	4,113,101

The bank records indicated that some of the credits were made as far back as 2002. Management had not established proper controls to match banked receipts to the respective debtor accounts in the Corporation's records.

Further there were no records on the steps, if any, taken by Management to identify the payees or report the credits to the Unclaimed Financial Assets Authority as required by Section 19(1) of the Unclaimed Financial Assets Authority Act, 2011. In the circumstance, the Corporation may have flouted the law on unclaimed assets.

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.

Responsibilities of Management and 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 governance.

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

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

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

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management 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 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 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 noncompliance. 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 Corporation'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 Corporation 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 Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant 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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 April, 2022

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

	Note	2020 KShs'000	2019 KShs'000 Restated*
Income			
Operating income	7	1,099,362	1,107,032
Other income	8	<u>140,173</u>	<u>834,240</u>
Total revenue		1,239,535	1,941,272
Cost of sales-property inventory	9	<u>-</u>	<u>(179,503)</u>
Operating expenses			
Administration costs	10	(415,102)	(531,868)
Amortisation of intangible assets	13	(10,442)	(4,261)
Depreciation of property and equipment	14	(12,471)	(11,185)
Provision for impairment losses	22	(188,565)	(497,567)
Impairment of property inventory	16	<u>(99,459)</u>	<u>(11,015)</u>
Total operating expenses		(726,039)	(1,055,896)
Operating profit		513,496	705,873
Finance cost	11	<u>(14,500)</u>	<u>(8,448)</u>
Profit before taxation		498,996	697,425
Taxation charge	12(a)	<u>(18,426)</u>	<u>(140,446)</u>
Net profit for the year		480,570	556,979
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Fair value gain/(loss) on unquoted investments	18	7,252,978	(3,707,550)
Fair value loss on quoted investments	19	(891,965)	(849,439)
Gain on revaluation of buildings	14	<u>-</u>	<u>14,156</u>
Total other comprehensive income for the year		<u>6,361,013</u>	<u>(4,542,833)</u>
Total comprehensive income for the year		<u>6,841,583</u>	<u>(3,985,854)</u>

*The prior year comparatives have been restated – see note 36

The notes set out on pages 31 to 83 form an integral part of the financial statements.

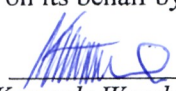
INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

ASSETS	Note	2020 KShs'000	2019 KShs'000
Cash and cash equivalents	23	1,052,312	559,449
Tax recoverable	12	54,346	-
Trade and other receivables	20	366,740	389,753
Related companies' current balances		-	155
Inventory-units for sale	16	710,740	779,805
Loans and advances	21	2,212,341	1,814,627
Government securities	17	-	12,555
Unquoted investments	18	14,536,563	7,294,608
Quoted investments	19	3,945,140	4,837,104
Investment property	15	3,412,571	3,395,000
Intangible assets	13	37,879	28,954
Property and equipment	14	<u>132,636</u>	<u>122,517</u>
TOTAL ASSETS		<u>26,461,268</u>	<u>19,234,527</u>
RESERVES (Page 30)			
Revaluation reserves	24	76,104	76,104
Fair value reserve	24	16,334,572	9,973,559
Retained earnings	24	<u>8,833,759</u>	<u>8,369,931</u>
Total reserves		<u>25,244,435</u>	<u>18,419,594</u>
LIABILITIES			
Trade and other payables	27	275,173	338,764
Deferred revenue	28	28,102	18,524
Related companies' current balances		77	-
Deferred tax	26	7,132	31,188
Taxation payable	12	-	1,349
Dividend payable	29	-	33,258
Loans and grants	25	<u>906,349</u>	<u>391,850</u>
Total liabilities		<u>1,216,833</u>	<u>814,933</u>
TOTAL RESERVES AND LIABILITIES		<u>26,461,268</u>	<u>19,234,527</u>

The financial statements on pages 27 to 83 were approved and authorised for issue by the Board of Directors on _____ and were signed on its behalf by:

Chairman



Kennedy Wanderi
Head of Finance ICPAK MNo. 3349

William Haggai
Executive Director

The notes set out on pages 32 to 79 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

	Revaluation reserves KShs'000	Fair value adjustment reserve KShs'000	Retained earnings KShs'000	Total reserves KShs'000
Year ended 30 June 2020:				
<i>At 1 July 2019</i>	76,104	9,973,559	8,369,931	18,419,594
Total comprehensive income				
Profit for the year	-	-	480,570	480,570
Other comprehensive income	-	6,361,013	-	6,361,013
	<u>-</u>	<u>6,361,013</u>	<u>480,570</u>	<u>6,841,583</u>
Transactions with owners of the Company:				
Dividend for 2020 – proposed and paid	-	-	(16,742)	(16,742)
Total distribution	<u>-</u>	<u>-</u>	<u>(16,742)</u>	<u>(16,742)</u>
At the end of the year	<u>76,104</u>	<u>16,334,572</u>	<u>8,833,759</u>	<u>25,244,435</u>
Year ended 30 June 2019				
As at 1 July 2018	61,948	14,611,568	7,731,932	22,405,448
Total Comprehensive income				
Profit for the year*	-	-	556,979	556,979
Other comprehensive income	14,156	(4,556,989)	-	(4,542,833)
Derecognized revaluation loss on disposed quoted investments*	-	(81,020)	81,020	(-)
	<u>14,156</u>	<u>(4,638,009)</u>	<u>637,999</u>	<u>(3,985,854)</u>
At 30 June 2019	<u>76,104</u>	<u>9,973,559</u>	<u>8,369,931</u>	<u>18,419,594</u>

*The prior year comparatives have been restated- see note 36

The notes set out on pages 31 to 83 form an integral part of the financial statements.



INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 KShs'000	2019 KShs'000
Cash flows from operating activities			
Cash generated from operations	30(a)	165,514	290,449
Income tax paid	12	(98,177)	(84,355)
Net cash generated from operating activities		<u>67,337</u>	<u>206,094</u>
Cashflows from investing activities			
Purchase of intangible asset	13	(19,367)	(24,566)
Purchase of property and equipment	14	(17,662)	(7,950)
Development of investment property		-	(1,178,898)
Proceeds on maturity of treasury bonds	17	12,555	-
Proceeds on disposal of quoted investments		<u>-</u>	<u>112,025</u>
Net cash used in investing activities		<u>(24,474)</u>	<u>(1,099,389)</u>
Cash flows from financing activities			
Development Bank of Kenya loan	25	500,000	-
Dividend payment	29	(50,000)	<u>5,880</u>
Net cash used in financing activities		<u>450,000</u>	<u>(5,880)</u>
Net increase/(decrease) in cash and cash equivalents		492,863	(899,175)
Movement in cash and cash equivalents			
At start of year		559,449	1,458,624
Increase/(decrease) in cash and cash equivalents		<u>492,863</u>	<u>(899,175)</u>
At end of year		<u>1,052,312</u>	<u>559,449</u>

The notes set out on pages 31 to 83 form an integral part of the financial statements.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

1. REPORTING ENTITY

The Industrial and Commercial Development Corporation (“the Corporation”) is established as a Corporation under the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya), and is domiciled in Kenya. The Corporation is involved in facilitating the industrial and economic development of Kenya by the initiation, assistance or expansion of industrial, commercial or other undertaking or enterprises in Kenya or elsewhere. The Corporation is to act principally as an auxiliary finance organization and afford financial assistance by way of guarantee, loan or investment. The address of its registered office is as follows:

Uchumi House
Aga Khan Walk
PO Box 45519 – 00100
Nairobi GPO

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs), the Public Finance Management Act and the ICDC Act (Cap 445 of the Laws of Kenya).

Details of the Corporation’s significant accounting policies are included in Note 3.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment, investment properties, marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable amounts.

(c) Use of estimates and judgements

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

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

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

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

2. BASIS OF PREPARATION (Continued)

(d) Functional and presentation currency

The financial statements are presented in Kenya Shillings, which is the Corporation's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

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

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

An entity satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which performance obligation is satisfied.

For ICDC, revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

Interest income: is the interest earned on the Corporation's customers loans and advances and is recognised in the income statement as it accrues using the effective interest method.

Finance income: comprises interest receivable from bank deposits and investment in securities and is recognised in income statement on a time proportion basis using the effective interest rate method.

Dividend income: is recognised in the income statement in the year in which the right to receive the payment is established.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

Rental income: is recognised in the income statement as it accrues using the effective lease agreements.

Income from sale of inventory; comprises the fair value of the consideration received for the sale of inventory property in the course of the Corporation's activities.

Other income is recognised as it accrues.

(b) Consolidation

The Corporation has more than 50%, shareholding in some of its investee companies. However, consolidated financial statements of the Corporation and its subsidiaries are not prepared as the Corporation does not have power, directly or indirectly, to govern the financial and operating activities of these entities so as to obtain benefits from the activities. Control over these entities lies with the Government of Kenya through the National Treasury.

(c) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Rental income from investment property is recognised as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Investment property is shown at fair value, based on annual valuations by internal professional valuers.

Increases in the carrying amount arising on revaluation of investment property are dealt with in profit or loss.

(d) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the completed units' method. The inventory consists of completed developed units or developments earmarked for sale that have been transferred from investment property. The valuation at the date of transfer is deemed as the cost of the inventory and subsequently assessed for any net realisable value losses.

(e) Property and equipment

All categories of property and equipment are initially recorded at cost. Property and equipment are subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by internal independent qualified valuers every three years for land and buildings and five years for other assets.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property and equipment (continued)

Increases in the carrying amount arising on revaluation are credited to other comprehensive income.

Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

The annual rates in use are:

Motor vehicle and motorcycles	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

Leasehold land and buildings are amortised and depreciated respectively at the lower of useful life of 55 years or over the remaining period of the lease term. Land is under leasehold for 99 years from 1 May 1970.

Gains and losses on disposal of property, motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

The assets residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

Assets acquired during the year are not subject to depreciation in the year of purchase, but full depreciation is charged on these assets in the year of disposal.

(f) Computer software development costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated useful lives not exceeding a period of 3 years.

(g) Financial instruments

The Corporation applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

The Corporation recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset. On initial recognition, a financial asset is classified as measured at: amortised cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or Fair value through profit or loss (FVTPL).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Recognition – continued

Financial assets are not reclassified subsequent to their initial recognition unless the entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in Other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Classification and measurement

Financial assets

Financial assets are classified on the basis of two criteria:

- (i) the business model within which financial assets are managed, and
- (ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The Corporation assesses the business model criteria at a portfolio level whereby, information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Classification and measurement – continued

Financial assets – continued

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election on initial recognition for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

For Financial assets at FVTPL, subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, for derivatives designated as hedging instruments.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI, assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI, assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Classification and measurement – continued

Financial assets – continued

Accounting for loans and advances held at amortised cost under IFRS 9 effective from 1 July 2018.

Loans and advances to customers and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability.

Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate. Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

In determining whether the business model is a 'hold to collect' model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean the Corporation is required to hold the financial assets until maturity. When determining if the business model objective is to collect contractual cash flows, the Corporation will consider past sales and expectations about future sales.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Corporation compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Corporation considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Corporation's borrowers operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Corporation's core operations increased significantly since initial recognition.

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Classification and measurement – continued

Financial assets – continued

(i) *Significant increase in credit risk – continued*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant decrease in the borrower's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Corporation presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Corporation has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Corporation assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term,
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Corporation considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

(ii) *Definition of default*

The Corporation considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the borrower; or
- information developed internally or obtained from external sources indicates that the borrower is unlikely to pay its lenders and or creditors, including the Corporation, in full (without taking into account any collateral held by the Corporation).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Classification and measurement – continued

Financial assets – continued

(ii) *Definition of default – continued*

Irrespective of the above analysis, the Corporation considers that default has occurred when a financial asset is more than 90 days past due unless the Corporation has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event ;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iii) *Write-off policy*

The Corporation writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings, or, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Corporation's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iv) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (continued)

Classification and measurement – continued

Financial assets – continued

(iv) *Measurement and recognition of expected credit losses – continued*

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Corporation's understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Corporation in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at the original effective interest rate. If the Corporation has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Corporation measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Derecognition of financial assets

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset the Corporation recognises its retained interest in the asset and an associated liability for amount it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Corporation has elected on initial recognition to measure at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(h) Financial liabilities

After initial recognition, the Corporation measures all financial liabilities including customer deposits, cash collaterals other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial liabilities (continued)

Derecognition of financial liabilities

Financial liabilities are derecognised when and only when the Corporation obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(i) Leases

The Corporation leases out its investment property consisting of its owned commercial properties. All leases are classified as operating leases from a lessor perspective. The Corporation has classified these leases as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Corporation during 2020 was KShs 169 million (2019 – KShs 247 million). The maturity analysis of lease payments showing future minimum lease payments due from third parties under non - cancellable leases has been detailed under note 34.

When the Corporation acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Corporation makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Corporation considers certain indicators such as whether the lease is for the major part of the economic life of the asset. When the Corporation is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Corporation applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the Corporation applies IFRS 15 to allocate the consideration in the contract. The Corporation recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

(j) Borrowings

Borrowings are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(k) Dividends payable

Dividends payable to the government of Kenya in the period in which they are declared and charged to the profit and loss. Proposed dividends are not accrued for until ratified in an annual general meeting.

(l) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position where there is a legal enforceable right to set off the recognised amounts and there is an intention to settle on net basis or realise the asset and settle the liability simultaneously.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

(n) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, the Corporation reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. Goodwill arising from a business combination is allocated to this group which is expected to benefit from the synergies of the combination.

The recoverable amount of an asset or a group of assets is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or group of assets.

An impairment loss is recognised if the carrying amount of an asset or group of assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the group of assets, and then to reduce the carrying amounts of the other assets in the group of assets on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Current and deferred income tax

Income tax expense represents the sum of tax currently payable and deferred tax.

Taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Current and deferred income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be generated against which the unused tax credit can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

(p) Employee benefits

Retirement benefit obligations

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by independent fund managers and is funded by contributions from both the employer and the employees.

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act.

The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time.

The Corporation contributions in respect of retirement benefit schemes are charged to profit or loss in the year to which they relate.

Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(q) Related parties

In the normal course of business, the Corporation has entered into transactions with related parties.

(r) Grants

Grants are recognized initially as deferred income at cost when there is reasonable assurance that they will be received, and the Corporation will comply with the conditions.

(s) Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

(t) Comparatives

Wherever necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) New standards, amendments and interpretations

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

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

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

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

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

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

New standards or amendments	Effective for annual period beginning or after
— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
— Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
— COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
— COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021
— Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) *New standards, amendments and interpretations in issue but not yet effective – continued*

New standards or amendments	Effective for annual period beginning or after
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
— IFRS 17 Insurance Contracts	1 January 2023
— Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
— Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes 01 Jan 2023 efinition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
— Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

These are not expected to have a material impact on the Corporation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

(a) Critical accounting estimates and assumptions

(i) *Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Corporation determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the asset is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Corporation monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Corporation's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification or those assets. No such changes were required during the periods presented.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) *Significant increase in credit risk*

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Corporation takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(iii) *Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Corporation monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

(iv) *Models and assumptions used*

The Corporation uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Key sources of estimation uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario.

When measuring ECL the Corporation uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (continued)

(iv) *Models and assumptions used – continued*

Loss given default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

(v) *Valuation of unquoted investments*

For equity instruments for which no active market exists, the Corporation uses the price of a recent investment or the earnings multiple to estimate the fair value of these investments. Management uses estimates based historical data relating to earnings of the investee Corporation and other market-based multiples in arriving at the fair value. The primary assumption in employing the earnings multiple method is that the market has assigned an appropriate value to the benchmark Corporation. The methodology and assumption used for arriving at the market-based multiples are reviewed and compared with other methodologies to ensure that there are no material variances.

(vi) *Useful lives of property, plant and equipment*

Critical estimates are made by directors in determining the useful lives of and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

(vii) *Valuation of investment properties*

Estimates are made in determining valuation of investment properties. The corporation management uses experts in determination of the values to adopt.

5. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Capital risk management

(a) Credit risk

Credit risk refers to the current or prospective risk to earnings and capital arising from an obligator's failure to meet the terms of any contract with the Corporation or if an obligator otherwise fails to perform as agreed. It arises principally from lending, leasing, trade finance and treasury activities.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The Corporation's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for doubtful advances, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

Credit quality analysis

An analysis of the Corporation's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Year ended 30 June 2020				2019 Total KShs'000
	Stage 1	Stage 2	Stage 3	Total KShs'000	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL		
KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Loans and advances to customers at amortised cost;					
Grade 1: Normal	543,291	-	-	543,291	822,320
Grade 2: Watch	-	67,811	-	67,811	464,398
Grade 3: Substandard	-	-	652	652	-
Grade 4: Doubtful	-	-	11,144	11,144	-
Grade 5: Loss	-	-	33,706,753	33,706,753	31,998,232
Total gross carrying amount	543,291	67,811	33,718,549	34,329,651	33,284,950
Loss allowance	(2,756)	(325)	(32,114,229)	(32,117,310)	(31,470,323)
Carrying amount	540,535	67,486	1,604,320	2,212,341	1,814,627

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

	2020			Total KShs'000	2019 Total KShs'000
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000		
Loans and advances to customers					
Carrying amount					
Current	540,535	-	-	540,535	808,754
Overdue < 30 days	-	67,486	-	67,486	404,604
Overdue > 30 days	-	-	1,604,320	1,604,320	601,269
Total	540,535	67,486	1,604,320	2,212,341	1,814,627

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Cash and cash equivalents

The Corporation held cash and cash equivalents of KShs 1,052 million at 30 June 2020 (2019 – KShs 559 million). The cash and cash equivalents are held with financial institution counterparties that are rated at least C to Aaa, based on Moody's ratings.

(i) *Collateral held and other credit enhancements*

The Corporation holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Percentage of exposure that is subject to collateral requirements

		2020	2019
		KShs'000	KShs'000
	Principal type of collateral held		
	Land	2,041,082	1,734,196
Loans and advances	Debentures	89,775	37,946
	Property and equipment	18,141	25,299
	Others	47,797	-
	Unsecured	<u>15,546</u>	<u>17,186</u>
		<u>2,212,341</u>	<u>1,814,627</u>

The following table stratify credit exposures from loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral.

The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

LTV Ratio	2020	2019
	KShs'000	KShs'000
Less than 50%	15,427	814,868
51 – 70%	2,107,139	768,029
71 – 90%	-	84,211
91 – 100%	-	114,184
More than 100%	<u>89,775</u>	<u>33,335</u>
	<u>2,212,341</u>	<u>1,814,627</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Cash and cash equivalents – continued

(i) *Collateral held and other credit enhancements – continued*

Loans and advances to corporate customers

The general creditworthiness of customers tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Corporation generally requests that corporate borrowers provide it.

The Corporation may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Corporation's focus on corporate customers' creditworthiness, the Corporation does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Corporation obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Other types of collateral and credit enhancements

The Corporation does not hold any other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Corporation has not obtained any assets by taking possession of collateral.

(ii) *Amounts arising from ECL*

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Cash and cash equivalents – continued

(ii) Amounts arising from ECL – continued

Inputs, assumptions and techniques used for estimating impairment – continued

Significant increase in credit risk – continued

The Corporation uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, except for [disclosure of the type of exposures], for which a backstop of 15 days past due is applied.

Credit risk grades

The Corporation allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
<ul style="list-style-type: none"> — Information obtained during monthly/quarterly review reports to Management and the Board e.g. loan status reports and aging analysis audited financial statements. Examples of areas of particular focus are: loan amount advanced, outstanding, principal/interest, ratio of outstanding amount to total loan balance, security valuation, gross profit margins, financial leverage ratios, debt service coverage. 	<ul style="list-style-type: none"> Staff status reports showing loan amount advanced, outstanding, principal/interest, ratio of outstanding amount to total loan balance, security valuation. 	<ul style="list-style-type: none"> — Payment record - this includes overdue status as well as a range of variables about payment ratios — Utilization of the granted limit for guarantees in favour of third parties. — Requests for and granting of forbearance e.g through loan restructuring.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Cash and cash equivalents – continued

(ii) Amounts arising from ECL – continued

Credit risk grades – continued

Corporate exposures	Retail exposures	All exposures
— Data from credit reference agencies, press articles after verification. Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities carried out by Research Unit and portfolio management.		

The table below provides an indicative mapping of how the Corporation's internal credit risk grades relate to PD and to external credit ratings of Moody's.

The customer loans portfolio of the Corporation comprises ordinary loans, business loans, current account loans, credit cards and Corporation guarantees.

Grading	12-month weighted-average PD	External rating
Grades 1: Normal	28%	AAA to B
Grades 2: Watch	26%	B- to C
Grades 3-5: Substandard and doubtful	100%	Default

Generating the term structure of PD

The Corporation collects sector wise performance and default information about its credit risk exposures analysed by type of product and borrower. For some portfolios e.g. government securities, information purchased from external credit reference agencies is also used.

The Corporation employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The method of PD parameter estimation is based on the ratio of PD = Gross Non-Performing Loan/Net Loans. The total gross GDP is projected from the previous year gross GDP using the GDP projection. The gross GDP per sector is then obtained by taking the ratio of the gross GDP per sector for the previous year and the total gross GDP for the previous year and multiplying that by the total gross GDP for the current year. The gross loans per sector is obtained by taking the ratio of the gross loans per sector for the previous year and the gross GDP per sector for the previous year and multiplying that by the gross GDP per sector for the current year. The gross NPLs are projected using the regression coefficients for each of the sector.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Amounts arising from ECL – continued

Credit risk grades – continued

Generating the term structure of PD – continued

A regression is run on the gross NPLs against gross GDP for each of the sectors. The Corporation uses one approach of generating PDs for all the loan portfolios.

Determining whether credit risk has increased significantly

The Corporation assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the sectorial information.

The Corporation considers credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being rated as "watch".

The Credit Committee reviews the loans periodically and the movement in the probability of default (PD) between the reporting period and initial recognition date of the loan to determine whether there has been a significant increase in credit risk.

Lifetime PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Corporation's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

Quantitative staging is as follows;

1. Stage 1: 0 - 30 days in arrears
2. Stage 2: 31 - 90 days in arrears plus facilities over 90 days in arrears but with payments in the last 3 months.
3. Stage 3: over 90 days in arrears with no repayments in the last three months.

An overdraft is considered in arrears if:

- It is over the limit (the drawn down amount exceeds the credit limit)
- The facility period has expired while an amount is still outstanding.

In either case, arrears days are calculated from the date the event occurred.

As a backstop, the Corporation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Amounts arising from ECL – continued

Credit risk grades – continued

Significant increase in credit risk – continued

Determining whether credit risk has increased significantly – continued

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Corporation determines a three months' probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Corporation monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Corporation.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Corporation considers indicators that are:

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) *Amounts arising from ECL – continued*

Credit risk grades – continued

Definition of default – continued

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Corporation; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Corporation for regulatory capital purposes.

Incorporation of forward-looking information

The Corporation incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Corporation formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside - Best Case and one downside - Worst Case, with Best Case having a 20% probability of occurring and Worst Case having a 30% Probability of occurring. The base case is aligned with information used by the Corporation for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Corporation operates, supranational organisations such as the International Monetary Fund and selected private-sector and academic forecasters.

Periodically, the Corporation carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Corporation's senior management.

The Corporation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk is GDP growth which generally incorporates other indicators such as inflation, exchange rates etc. Another importance source of information used is the sector wise or industry wise total loans and advances and non-performing loans and advances as experienced by the banking industry. This information is published by the Central Bank of Kenya annually. The exposures are classified sector wise and credit losses computed for each sector individually.

The economic scenarios used as at 30 June 2020 included the following key indicators for Kenya for the years ending 31 December 2020 to 2024.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Amounts arising from ECL – continued

Credit risk grades – continued

Incorporation of forward-looking information – continued

	Scenario	2020	2021	2022	2023	2024
Cumulative macro-economic conditions	Base	50%	50%	50%	50%	50%
Cumulative macro-economic conditions	Upside	20%	20%	20%	20%	20%
Cumulative macro-economic conditions	Downside	30%	30%	30%	30%	30%

Predicted relationships between the key indicators and sector wise default and loss rates of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

Uncertain events

Uncertain events that are relevant to the risk of default occurring but for which, despite best efforts, the Corporation is not able to estimate the impact on ECL because of lack of reasonable and supportable information include:

1. Impact of the slowing down global economy on the growth rate of the Kenyan Economy
2. The unpredictable volatility of the global oil prices and its impact on the Kenyan Economy. This is specially the case when is Kenya is a net importer.
3. Unpredictable weather conditions considering Kenya is a predominately agricultural economy.
4. The unpredictable political environment both local and regional which has a direct impact on economic performance.
5. The rising impact of the Kenya's debt to GDP ratio and its impact on the economic output.

Key assumptions

In all the three scenarios of Base, Best and Worst case, positive GDP growth is assumed. This assumption is well reasoned given the tested resilience strength of the Kenyan economy during distress times.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) *Amounts arising from ECL – continued*

Credit risk grades – continued

Modified financial assets – continued

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Corporation renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default.

Under the Corporation's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Corporation Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Corporation's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Corporation's ability to collect interest and principal and the Corporation's previous experience of similar forbearance action. As part of this process, the Corporation evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) Amounts arising from ECL – continued

Credit risk grades – continued

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Corporation estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Corporation derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Corporation measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Corporation considers a longer period. The maximum contractual period extends to the date at which the Corporation has the right to require repayment of an advance or terminate a loan commitment or guarantee.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(ii) *Amounts arising from ECL – continued*

Credit risk grades – continued

Measurement of ECL – continued

However, for overdrafts facilities that include both a loan and an undrawn commitment component, the Corporation measures ECL over a period longer than the maximum contractual period if the Corporation's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Corporation's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Corporation can cancel them with immediate effect, but this contractual right is not enforced in the normal day-to-day management, but only when the Corporation becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Corporation expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- remaining term to maturity;
- industry;

The bankings are subject to regular review to ensure that exposures within a particular financial institution remain appropriately homogeneous.

For portfolios in respect of which the Corporation has limited historical data, external benchmark information is used to supplement the internally available data. The Corporation does not have portfolios for which external benchmark information represents a significant input into measurement of ECL.

Modified financial assets

There were no financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

Offsetting financial assets and financial liabilities

There were no financial assets and financial liabilities that were offset in the Corporation's statement of financial position and none are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Corporation cannot obtain the necessary funds to meet its obligations associated with financial instruments as they fall due. The amount of liquidity required depends very much on the Corporation's ability to forecast demand and its access to outside sources. The board of directors has assigned the authority for the management oversight of the liquidity risk policy to the Finance and Investment Committee. The committee, as necessary, reviews various liquidity and funding decisions and related risks. Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.

Liquidity risk also relates to the risk that the Corporation would miss out on attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the available-for-sale quoted investments can be converted to cash when funds are required.

The table below shows the undiscounted cash outflows on the Corporation's financial liabilities based on their contractual maturity dates and the discounted cash inflows on the Corporation's financial assets based on their expected maturity dates. The Corporation's expected cash flows on these instruments could vary significantly from this analysis.

30 June 2020	0-12 Months	1-5 Years	Over 5 years	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Liabilities				
Grants and loans	514,500	-	391,850	906,350
Trade and other payables	269,078	-	-	269,078
Dividends payable	-	-	-	-
Total liabilities	783,578	-	391,850	1,175,428
30 June 2019				
Liabilities				
Grants and loans	-	-	391,850	391,850
Trade and other payables	338,764	-	-	338,764
Dividends payable	33,258	-	-	33,258
Total liabilities	372,022	-	391,850	763,872

The gross nominal inflow/(outflow) disclosed is the contractual, undiscounted cash flow on the financial liability or commitment.

Additionally, the Corporation's liquidity position has not been severely affected by the Covid-19 Pandemic as shown by the positive cashflow position as at year end.

(c) Market risk

(i) Interest rate risk

The Corporation is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances to customers are either pegged to the Corporation's base lending rate or Treasury bill rate.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The board of directors has assigned the authority for the management oversight of the interest rate risk policy to the Finance and Investment Committee. The committee, reviews various liquidity and funding decisions and related risks.

Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.

The table below summarises the exposure to interest rate risks. Included in the table are the Corporation's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Corporation does not bear an interest rate risk on off financial position items.

2020	Due between 0-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Totals KShs'000
Financial assets				
Short term deposits	1,052,312	-	-	1,052,312
Loans	-	611,102	1,604,320	2,215,422
Total financial assets	1,052,312	611,102	1,604,320	3,267,734
Financial liabilities				
Grants and Government of Kenya loans	-	-	(906,350)	(906,350)
Total financial liabilities	-	-	(906,350)	(906,350)
Interest sensitivity gap	1,052,312	611,102	697,970	2,361,384
2019	Due between 0-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Totals KShs'000
Financial assets				
Short term deposits	310,499	-	-	310,499
Investment in Government securities	12,555	-	-	12,555
Loans	-	1,317,317	497,310	1,814,627
Total financial assets	323,054	1,317,317	497,310	2,137,681
Financial liabilities				
Grants and Government of Kenya loans	-	-	(391,850)	(391,850)
Total financial liabilities	-	-	(391,850)	(391,850)
Interest sensitivity gap	323,054	1,317,317	105,460	1,745,831

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Corporation. It is unusual for a Corporation's interest to completely be matched due to the nature of business terms and types.

Exposure to interest rate risk

The Corporation is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The Finance and Investment Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the statement of financial position date.

Interest rate risk – stress test

	Amount	Scenario 10% increase in net Margin	Scenario 10% decrease in net Margin
	KShs'000	KShs'000	KShs'000
As at 30 June 2020			
Profit before taxation	482,258	530,483	434,032
As at 30 June 2019			
Profit before taxation	778,444	856,288	700,599

(ii) Price risk

The Corporation's private equity holdings are valued according to the Private Equity and Venture Capital Guidelines and also in line with IFRS 13, which set out the valuation methodology for fair valuation. Valuation is relatively subjective and may change from time to time. In addition, the valuation is also affected by the volatility of the stock prices since the Corporation uses the earnings multiple method which entails the use of the share prices of similar/comparable quoted companies among other components.

Valuation risks are mitigated by comprehensive quarterly reviews of the underlying investments by management every quarter. The appropriateness of the investment valuations are then considered by the Risk and Audit committee.

Quoted equity is valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by having a diverse portfolio that ensures the losses in one sector are offset by the gains in other sectors.

Investment holding period risk

Over 45% of the Corporation's investments are private equity investments, which are not traded on any formal exchange. Disposal of these investments is constrained in many instances by pre-emptive rights, shareholder agreements and the absence of willing trade buyers or an active secondary market. The timing of realised proceeds on disposal may pose a risk to the Corporation. The Corporation mitigates this risk by seeking influence the investee company's operations through large shareholding or board representation.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(ii) Price risk – continued

Investment holding period risk – continued

The Corporation also seeks compensation for this risk through high return hurdles during the investment appraisal and laying emphasis on dividend generating potential. However, the Corporation has got no fixed time horizon for its investments and does not enforce exit options on investments as it believes current practice makes it easier to acquire attractive investments.

Investments in quoted securities <i>Main investment market Segment</i>	30-Jun-20			30-Jun-19		
	Number of shares	Market price 2020 KShs	Market value 2020 KShs'000	Number of shares	Market price 2019 KShs	Market value 2019 KShs'000
Commercial and services						
Uchumi Supermarkets Limited	7,288,472	-	-	7,288,472	0.51	-
Investment						
Centum Investments Limited	152,847,897	25.55	3,905,264	152,847,897	31.4	4,799,423
Manufacturing and allied						
Eveready Batteries Kenya Limited	36,583,575	1.09	39,876.10	36,583,575	1.03	37,681
Total			<u>3,945,140</u>			<u>4,837,104</u>

The Nil share price exhibited by Uchumi Supermarkets Limited is attributed to historical financial distress facing the retailer.

At 30 June 2020, if the prices of all quoted equity investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been KShs 197,257,000 (2019 – KShs 241,855,200) higher/lower.

At 30 June 2020, if the prices earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been KShs 389,655,000 (2019 – KShs 364,730,400) higher/lower.

(d) Capital risk management

The Corporation is governed by the Industrial and Commercial Development Corporation Act Cap 445, Laws of Kenya, which does not provide for a specific capital structure.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

6. FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES

Fair value hierarchy

The Corporation specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions.

These two types of inputs have created the following fair value hierarchy:

(a) Level 1

Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

(b) Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

(c) Level 3

Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy	Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 3	Investment in subsidiaries	ICDC has investments in the following subsidiaries: — Funguo Investments Limited – Valued using the Net Assets method.	Fair values of net assets in the balance sheet	— Increase/ (decrease) in fair value of net assets will result to an increase/decrease in the fair value of the investment.
		— Two Rivers Development Limited – Valued using the Net Assets method.	Fair values of net assets in the balance sheet	— Increase/ (decrease) in fair value of net assets will result to an increase/decrease in the fair value of the investment.
		— Focus Container Freight Station Limited – Valued using the Net Assets method.	Fair values of net assets in the balance sheet	— Increase/(decrease) in fair value of net assets will result to an increase/(decrease) in the fair value of the investment.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

6. **FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES (Continued)**

(c) **Level 3 (continued)**

Fair value hierarchy	Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 3	Investment in subsidiaries	— Development Bank of Kenya – Valued using the Price to Book multiple method.	Company specific discount of 10%, Liquidity discount of 10%, Control premium of 17.2%, Comparable P/BV multiple of 0.9x	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the control premium will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable P/BV multiple will result to an increase/(decrease) in the fair value of the investment.
		— IDB Capital Limited – Valued using the Price to Book multiple method.	Company specific discount of 12.5%, Liquidity discount of 15.9%, Comparable P/BV multiple of 1.3x	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable P/BV multiple will result to an increase/(decrease) in the fair value of the investment.
		— Minet Kenya Insurance Brokers Limited – Valued using the EV/EBITDA multiple method.	Comparable EV/EBITDA multiple of 7.1x, Company specific discount of 15.0%, Liquidity discount of 15.9%	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable EV/EBITDA multiple will result to an increase/(decrease) in the fair value of the investment.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

6. FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES (Continued)

(c) Level 3 (continued)

Fair value hierarchy	Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Level 3	Investment in subsidiaries	— KWA Holdings EA Limited – Valued using the EV/EBITDA multiple method	Comparable EV/EBITDA multiple of 8.0x, Company specific discount of 15.0%, Liquidity discount of 12.0%	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable EV/EBITDA multiple will result to an increase/(decrease) in the fair value of the investment.
		— Almasi Beverages Limited – Valued using the EV/EBITDA multiple method	Comparable EV/EBITDA multiple of 6.9x, Company specific discount of 5.0%, Liquidity discount of 12.0%	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable EV/EBITDA multiple will result to an increase/(decrease) in the fair value of the investment.
		— Isuzu East Africa Limited – Valued using the EV/EBITDA multiple method	Comparable EV/EBITDA multiple of 7.4x, Company specific discount of 10.0%, Liquidity discount of 15.9%	<ul style="list-style-type: none"> — Increase/(decrease) in the company specific discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the liquidity discount will result to an increase/(decrease) in the fair value of the investment. — Increase/(decrease) in the comparable EV/EBITDA multiple will result to an increase/(decrease) in the fair value of the investment.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

6. FINANCIAL ASSETS AND LIABILITIES AND THEIR FAIR VALUES (Continued)

(c) Level 3 (continued)

The following table shows an analysis of financial and non-financial instruments reflected at fair value by level of the fair value hierarchy;

30 June 2020	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets:				
Unquoted equity instruments	-	-	14,536,563	14,536,563
Quoted equity instruments	3,945,140	-	-	3,945,140
Investment property	-	3,412,571	-	3,412,571
30 June 2019				
Financial assets:				
Unquoted equity instruments	-	-	7,294,608	7,294,608
Quoted equity instruments	4,837,104	-	-	4,837,104
Investment property	-	3,395,000	-	3,395,000

7. OPERATING INCOME	2020 KShs'000	2019 KShs'000
Dividends	480,605	558,611
Interest on loans and advances	273,207	219,136
Application fees	4,131	11,709
Management and advisory services	7,287	9,022
Rental income	249,065	233,157
Interest on deposits	85,067	75,397
	<u>1,099,362</u>	<u>1,107,032</u>
8. OTHER INCOME		Restated
Sale of investments*	271	186,270
Fair value gains on investment property	23,773	103,961
Sundry income	11,126	464,895
Write back on loans and advances	105,003	79,114
	<u>140,173</u>	<u>834,240</u>
9. COST OF SALES		
Cost of sales – property inventory	-	<u>179,503</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

10.	(a) ADMINISTRATION COSTS	2020 KShs'000	2019 KShs'000
	Staff costs (See Note 10(b))	239,129	248,386
	Directors' expenses and emoluments	25,427	17,748
	Land rates	3,202	3,014
	Bank charges	699	480
	Water and electricity	10,618	17,652
	Publicity and advertising	5,311	7,982
	Telephone and telex	4,576	5,280
	Transportation, travelling and subsistence	11,650	33,262
	Printing, stationery and photocopying	3,202	2,672
	Motor vehicle operating expenses	1,254	1,889
	Insurance costs	5,424	4,840
	Professional expenses	4,126	6,028
	Donations and other contributions	371	-
	ICT expenses	7,548	11,291
	Auditors' remuneration	5,400	4,056
	Legal expenses	5,100	5,312
	Uchumi House security	7,451	8,617
	VAT and other taxes	9,786	10,262
	Property administration expenses	39,534	90,590
	Repairs and maintenance	13,253	5,501
	Subscriptions	837	1,757
	Depreciation adjustment	13	-
	Other operating expenses	<u>11,191</u>	<u>45,249</u>
		<u>415,102</u>	<u>531,868</u>
	(b) STAFF COSTS		
	Salaries and allowances of permanent employees	194,917	195,460
	Staff welfare	25,118	35,803
	Other pension contributions	15,865	15,183
	Wages of temporary employees	2,737	1,394
	Compulsory National Social Security Schemes	142	145
	Leave pay and gratuity provisions	<u>350</u>	<u>401</u>
		<u>239,129</u>	<u>248,386</u>
11.	FINANCE COSTS		
	Interest expense on Government of Kenya loans	<u>14,500</u>	<u>8,448</u>
12.	TAXATION		
	(a) Taxation charge		
	Current income tax based on adjusted profit at 25% (2019 – 30%)	42,482	75,625
	Deferred tax credit	<u>(24,056)</u>	<u>64,821</u>
		<u>18,426</u>	<u>140,446</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

12. TAXATION (Continued)

(b) Reconciliation of tax charge to the expected tax based on accounting profit

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

	2020 KShs'000	2019 KShs'000
Profit before taxation	<u>498,996</u>	<u>778,444</u>
Tax using the applicable taxation rate at 25% (2019 – 30%)	124,749	233,533
Tax effects of:		
Income not subjected to tax	(171,225)	(479,462)
Expenses not deductible for tax	36,135	15,791
Effect of change in tax rate on closing deferred tax	(10,564)	-
Movement in deferred tax not recognised in the year	39,331	247,600
Income tax expense from rental income taxed separately	<u>-</u>	<u>75,625</u>
Taxation charge	<u>18,426</u>	<u>(140,446)</u>

(c) Taxation payable/(recoverable)

At start of year	1,349	10,079
Taxation charge	42,482	75,625
Prior year under provision for current tax	-	-
Tax paid	<u>(98,177)</u>	<u>(84,355)</u>
At end of year payable/(recoverable)	<u>(54,346)</u>	<u>1,349</u>

13. INTANGIBLE ASSETS

Cost

As at 1 July 2019 and 2018	75,578	51,012
Additions in the year	<u>19,367</u>	<u>24,566</u>
As at 30 June 2020 and 2019	<u>94,945</u>	<u>75,578</u>

Amortisation

As at 1 July 2019 and 2018	46,624	42,363
Charge for the year	<u>10,442</u>	<u>4,261</u>
As at 30 June 2020 and 2019	<u>57,066</u>	<u>46,624</u>
Carrying amount as at 30 June 2020 and 2019	<u>37,879</u>	<u>28,954</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

14. PROPERTY AND EQUIPMENT

2020:	Land and buildings KShs'000	Motor vehicles KShs'000	Furniture and equipment KShs'000	Total KShs'000
Cost/valuation				
At 1 July 2019	78,500	19,882	85,926	184,308
Transfer from Investment property	-	-	4,929	4,929
Additions	-	10,977	6,685	17,662
At 30 June 2020	<u>78,500</u>	<u>30,859</u>	<u>97,540</u>	<u>206,899</u>
Depreciation				
At 1 July 2019	-	10,616	51,176	61,792
Charge for the year	-	3,284	9,187	12,471
At 30 June 2020	<u>-</u>	<u>13,900</u>	<u>60,363</u>	<u>74,263</u>
Carrying amount at 30 June 2020	<u>78,500</u>	<u>16,959</u>	<u>37,177</u>	<u>132,636</u>
2019:				
Cost/valuation				
At 1 July	65,000	19,884	83,822	168,706
Additions	-	-	7,950	7,950
Revaluation	13,500	-	-	13,500
Disposals	-	-	(5,848)	(5,848)
At 30 June 2019	<u>78,500</u>	<u>19,884</u>	<u>85,924</u>	<u>184,308</u>
Depreciation				
At 1 July 2018	-	7,332	46,670	54,002
Disposals	-	-	(2,740)	(2,740)
Eliminated on valuation	(656)	-	-	(656)
Charge for the year	656	3,283	7,246	11,185
At 30 June 2019	<u>-</u>	<u>10,615</u>	<u>51,176</u>	<u>61,791</u>
Carrying amount At 30 June 2019	<u>78,500</u>	<u>9,269</u>	<u>34,748</u>	<u>122,517</u>

The Corporation's valuer last carried out a revaluation of land during the year ended 30 June 2019 based on open market values. The resulting surplus of KShs 14,146,000 was carried under revaluation reserves.

15. INVESTMENT PROPERTY

	2020 KShs'000	2019 KShs'000
As at 1 July 2019	3,395,000	2,112,141
(Adjustments)/additions	(1,274)	1,178,898
Fair value gain	23,774	103,961
Transfers to property and equipment	(4,929)	-
As at 30 June 2020	<u>3,412,571</u>	<u>3,395,000</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

15. INVESTMENT PROPERTY (Continued)

The fair value model has been applied for the investment property; an internal professional valuer determined the fair value of the investment property as at 30 June 2020 based on the open market method. The main assumption was that the investment property fair value is in line with the requirements of IFRS 13. The fair value hierarchy adopted was Level 2. The entity valuers obtained price estimates from the Lands registry and professional real estate agents of lands within vicinity of the investment property based on their size and location to determine the fair value.

Level 2 Fair values

Valuation technique	Significant unobservable inputs	Inter-relationships between unobservable inputs and fair value measurements
Leasehold land held for value appreciation and development		The estimated fair values would increase/ (decrease);
Market approach: The valuation model uses prices and other relevant information generated by market transactions involving identical or similar assets. The fair value is determined as the price that would be paid to sell the land in an orderly transaction to market participants.	1. Property prices in the locality 2. Infrastructure developments	1. If property prices were higher/(lower) 2. Increase with improvements in infrastructure

Investment property comprises:

- Property zoned for Industrial purposes within Eldoret Municipality
- Property set aside vide the acquisition notice for public use, specifically expansion of Malindi Airport
- Property zoned for private residential purposes within Embu Municipality
- Property zoned for industrial purposes in Eldama Ravine
- Uchumi house, commercial property i.e. office spaces
- Finance house, commercial property i.e. office spaces

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

15. INVESTMENT PROPERTY (Continued)

(a) Rental income and operating expenses

	2020 KShs'000	2019 KShs'000
Rental income	<u>249,065</u>	<u>233,157</u>
Operating expenses		
Repairs and maintenance (buildings)	12,534	5,530
Uchumi House fire equipment expenses	37	-
Repairs and maintenance (machines)	733	-
Insurance – general	2,501	-
Lift maintenance Uchumi House	29	-
land rates	3,816	678
Utilities – electricity	7,199	14,173
Utilities – water	3,419	3,636
Uchumi House admin expenses	8,973	6,807
Finance House admin expenses	19,684	15,268
Uchumi House cleaning expenses	510	-
Security-Uchumi House	7,451	8,662
Software maintenance	572	439
HOD salary - property management (20%)	1,346	1,126
Assistant manager and accountant's salary	3,861	3,210
Admin officer	2,082	-
Uchumi House caretaker	1,590	1,268
Accountant's salary	2,216	3,588
Finance House caretaker	585	-
Other expenses	-	4,861
	<u>79,138</u>	<u>69,245</u>
Net rental income	<u>169,927</u>	<u>163,912</u>

16. INVENTORY-UNITS FOR SALE

	2020 KShs'000	2019 KShs'000
Property – Nyali	469,740	439,286
– Kizingo	241,000	340,519
	<u>710,740</u>	<u>779,805</u>

Inventory represents transfers of Nyali and Kizingo development from investment property following the commencement of development of residential units with a view to sell. There was no inventory expensed through sale in the year.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

16. INVENTORY-UNITS FOR SALE (Continued)

Movement in inventory balances during the year is as below:

	2020 KShs'000	2019 KShs'000
At the start of the year	779,805	970,322
Additions	30,394	-
Sales made in the year	-	(179,502)
Impairment	(99,459)	(11,015)
	<u>710,740</u>	<u>779,805</u>

17. GOVERNMENT SECURITIES-AT AMORTISED COST

At start of the year	12,555	12,555
Bond maturity during the year	(12,555)	-
At end of year	<u>-</u>	<u>12,555</u>

The Government of Kenya bond matured in August 2019 with a maturity value of KShs 12,554,993.

18. UNQUOTED INVESTMENTS - FVTOCI

	2020 KShs'000	2019 KShs'000
Valuation		
As at 1 July 2019	7,773,216	11,480,766
Fair value gain/(loss)	<u>7,252,978</u>	<u>(3,707,550)</u>
As at 30 June 2020	<u>15,026,194</u>	<u>7,773,216</u>
Impairment		
As at 1 July 2019	(478,608)	(367,608)
Impairment loss in the year	<u>(11,023)</u>	<u>(111,000)</u>
As at 30 June 2020	<u>(489,631)</u>	<u>(478,608)</u>
Net carrying value as at 30 June	<u>14,536,563</u>	<u>7,294,608</u>

Investments in the following investee companies have been fully provided for:

	2020 KShs'000	2019 KShs'000
Unquoted investments which are fully provided for		
Agro Chemicals and Food Co Limited	16,900	16,900
Njoka Tanners Limited	25,000	25,000
East African Coast Fisheries Limited	10,230	10,230
Meatland Processing Limited	6,047	6,047
Mountain Region Poultry Farmers	16,034	16,034
Palm Health Care International Limited	50,000	50,000
Kenatco Transport Limited	6,900	6,900

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

18. UNQUOTED INVESTMENTS – FVTOCI (Continued)

	2020	2019
Unquoted investments which are fully provided for	KShs'000	KShs'000
Pan African Vegetable Products – preference shares	15,805	15,805
Kisumu Cotton Mills	19,500	19,500
Pan African Vegetable Products – ordinary shares	1,265	1,265
Kenya National Trading Corporation Limited	200	200
Kenatco Taxis Limited – in receivership	5,000	5,000
Organic Growers and Packers (EPZ) Limited	67,444	67,444
Pan Africa Paper Mills (EA) Limited	7,338	7,338
Home and Hospitality textiles manufacturing co. ltd	11,000	-
Preference equity provisions		
Organic Growers and Packers (EPZ) Limited	70,000	70,000
Global Supply Solutions Limited	40,000	40,000
Sisibo Tea Factory Limited	51,000	51,000
Njimia Pharmaceutical Ltd	<u>60,000</u>	<u>60,000</u>
Total provisions	<u>489,663</u>	<u>478,663</u>

19. QUOTED INVESTMENTS - AT FVTOCI

	2020	2019
	KShs'000	KShs'000
As at 1 July	4,837,105	5,843,621
Fair value loss	(891,965)	(849,439)
Impairment loss in the year	-	(34,272)
Disposal	-	(112,025)
Loss on disposal	<u>-</u>	<u>(10,781)</u>
As at 30 June	<u>3,945,140</u>	<u>4,837,104</u>

20. TRADE AND OTHER RECEIVABLES

Recoverable expenses from associate companies	66,013	29,356
Dividends receivable	221,391	227,664
Receivable from Uchumi House and Finance House tenants	214,217	226,311
Other debtors	91,623	221,707
Gross trade and other receivables	593,244	705,038
Less: provision for impairment losses	(226,504)	(315,285)
Net trade and other receivables	<u>366,740</u>	<u>389,753</u>

21. LOANS AND ADVANCES

(a) Large and medium loans

(i) Wholly owned subsidiaries

Kenatco Taxis Ltd	<u>-</u>	<u>5,400</u>
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INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

21. **LOANS AND ADVANCES (Continued)**

(a) Large and medium loans	2020 KShs'000	2019 KShs'000
<i>(ii) Other companies</i>		
Kisii Bottlers Ltd	-	(7)
Development Bank of Kenya Inc	-	-
Kenya National Trading Corporation	-	-
Mediheal Diagnostics and Fertility Centre	-	-
Kisii Bottlers asset financing loan	-	-
	<u>-</u>	<u>(7)</u>
	<u>-</u>	<u>5,393</u>
Less: Provisions on large & medium loans	<u>5,372</u>	<u>5,372</u>
Total large & medium loans	<u><u>-</u></u>	<u><u>21</u></u>
 (b) Small loans		
Commercial	924,450	11,551,567
Property	3,000	2,422,629
Industrial	58,074	6,575,430
Corporate	1,086,050	794,540
ICDC/GM/KBL	-	38,715
Personal loans	-	344,740
ICDC staff loans	326,105	64,714
Hire purchase	-	280,230
Corporate	-	2,536,040
Loans pending write off	31,931,972	8,676,928
Unclassified loans	-	(583)
	<u>34,329,651</u>	<u>33,284,950</u>
Less: Provisions on small loans	<u>(32,117,310)</u>	<u>(31,470,323)</u>
Total small loans	<u><u>2,212,341</u></u>	<u><u>1,814,627</u></u>
Total loans	<u><u>2,212,341</u></u>	<u><u>1,814,627</u></u>
 (c) Impairment on loans		
Large and medium loans		
As at 1 July	<u>5,372</u>	<u>5,372</u>
 Small loans		
As at 1 July	31,464,951	27,901,313
Increase in impairment	717,462	3,642,752
Write offs	-	-
Write backs	<u>(70,475)</u>	<u>(79,114)</u>
	<u>32,111,938</u>	<u>31,464,951</u>
Total impairment on loans	<u><u>32,117,310</u></u>	<u><u>31,470,323</u></u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

22. PROVISION FOR LOSSES

The corporation analyses the recoverability of its debtors, loans and unquoted securities. During the year, the following amounts were charged to profit or loss.

	2020 KShs'000	2019 KShs'000
Impairment provisions of loans and advances	125,310	219,076
Provision for impairment of unquoted investments	-	111,000
Provision for impairment of quoted investments	11,023	34,272
Provision for impairment of preferential dividends receivable	-	51,964
Provision for impairment of Uchumi House debtors	52,232	58,573
Provision for impairment of other debtors	-	22,682
	<u>188,565</u>	<u>497,567</u>

23. CASH AND CASH EQUIVALENTS

For purposes of the cashflow statement

Short term deposits	1,037,977	310,499
Cash in bank	<u>14,335</u>	<u>248,950</u>
Cash and cash equivalents	<u>1,052,312</u>	<u>559,449</u>

24. RESERVES

Revaluation reserves

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment.

Fair value reserves

The fair value adjustment reserve arises on the revaluation of FVTOCI financial assets. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is transferred to retained earnings. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

Retained earnings

The retained earnings represent amounts available to the shareholders of the Corporation. Retained earnings are utilised to finance business activity.

25. GRANTS AND LOANS

	2020 KShs'000	2019 KShs'000
Grants and loans from the Government of Kenya		
Balance at start of the year	381,147	832,791
Loans issued during the year	500,000	-
Accrued additional interest	14,500	7,928
Write back of loans and grants	-	(459,572)
Balance at end of the year	<u>895,647</u>	<u>381,147</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

25.	GRANTS AND LOANS (Continued)	2020	2019
		KShs'000	KShs'000
	Loans from KFW of West Germany		
	Balance at beginning of the year	10,703	10,183
	Accrued additional interest	-	520
	Repayment during the year	-	-
	Balance at end of the year	<u>10,703</u>	<u>10,703</u>
	Total loans and grants	<u>906,350</u>	<u>391,850</u>

During the year ended 30 June 2020, the Government of Kenya advanced a loan of KShs 500,000,000 for on-lending towards Development Bank of Kenya. (2019 – Nil). The effective interest rate on the loan is 3% p.a, giving rise to a finance cost of KShs 14,500,000. The loan from KFW was guaranteed by the Government and forms part of the restructured loans from the GOK. The Corporation does not have any direct contractual arrangement with KFW.

26. DEFERRED TAXATION

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 25% (2019 – 30%) except for deferred tax calculated using the enacted rate of 5% on capital gains arising on investment property and unquoted investments. Tax on capital gains was re-introduced and became effective 1 January 2015.

		2020		2019
		KShs'000		KShs'000
	Movement in deferred tax account:			
	At start of year	31,188		-
	Day one IFRS 9 adjustment	-		(33,633)
	Credit to income statement (Note 12)	(24,056)		64,821
	At end of year	<u>7,132</u>		<u>31,188</u>
2020				
	Unrecognised deferred tax		Prior year under/over provision	Movement in the year
		1 July 2019		At 30 June 2020
	Excess depreciation over capital allowances	(982)	(454)	(80)
	Provisions	(1,316,839)	-	(180,646)
	Day 1 IFRS 9 adjustment	(33,633)	-	33,633
	Tax losses	(117,469)	(58,567)	107,761
		<u>(1,468,923)</u>	<u>(59,021)</u>	<u>(39,331)</u>
	Recognised deferred tax			
	Revaluation gain on investment property	<u>31,188</u>	-	<u>(24,056)</u>
				<u>7,131</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

26. DEFERRED TAXATION (Continued)

2019	Prior year under/over 1 July 2018	provision	Movement in the year	At 30 June 2019
Unrecognised deferred tax				
Excess depreciation over capital allowances	3,485)	-	2,503	(982)
Provisions	(1,239,940)	22,102	(99,001)	(1,316,839)
Day 1 IFRS 9 adjustment	-	-	(33,633)	(33,633)
Tax losses	-	-	(117,469)	(117,469)
	<u>(1,224,808)</u>	<u>22,102</u>	<u>(247,600)</u>	<u>(1,468,923)</u>
Recognised deferred tax				
Revaluation gain on investment property	-	-	31,188	31,188
Derecognition of Day 1 Adjustment	-	-	33,633	33,633
	<u>-</u>	<u>-</u>	<u>64,821</u>	<u>64,821</u>

The deferred tax asset has not been recognised in the financial statements for the current and prior years as the directors are of the opinion that the benefit will not crystallize in the foreseeable future.

27. TRADE AND OTHER PAYABLES

	2020 KShs'000	2019 KShs'000
General creditors	228,606	293,038
Rent deposit	<u>46,567</u>	<u>45,726</u>
Total	<u>275,173</u>	<u>338,764</u>

28. DEFERRED REVENUE

Nyali	578	-
Kizingo	<u>27,524</u>	<u>18,524</u>
Total	<u>28,102</u>	<u>18,524</u>

Deferred revenue comprises advance payments from customers to purchase residential units, which are classified as inventory- complete units that are in the process of ownership transfer.

29. DIVIDENDS PAYABLE TO GOVERNMENT OF KENYA

As a state Corporation, the Industrial Commercial and Development Corporation is supposed to pay dividends to the Government of Kenya. The corporation's policy is to remit 5% of the prior year's profit after tax on an annual basis.

The movement in dividends payables is below:

	2020 KShs'000	2019 KShs'000
At start of the year	33,258	38,730
Accrued during the year	16,742	408
Paid during the year	(50,000)	(5,880)
At end of year	<u>-</u>	<u>33,258</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

30. NOTES TO THE STATEMENT OF CASHFLOWS

(a) Reconciliation of profit before taxation to cash generated from operations

	2020 KShs'000	2019 KShs'000 Restated*
Profit before taxation	498,996	697,425
Adjustments for:		
Depreciation of property and equipment	12,471	11,186
Amortisation of intangible assets	10,442	4,261
Impairment loss on inventory	99,459	-
Tax paid	-	-
Gain on disposal of unquoted investments	-	-
Loss on disposal of quoted investments	-	10,780
Interest on Government of Kenya loans	14,500	8,448
Gain on revaluation of investment property	(23,773)	(103,961)
Impairment of investment property	1,273	-
Provision for impairment of unquoted investments	11,023	111,000
Provision for impairment of quoted investments	-	34,272
Write off of PPE	-	3,108
Write back on loans and grants from Government of Kenya	-	(459,572)
Day I adjustment on adoption of IFRS 9	-	(112,110)
Operating profit before changes in working capital	<u>624,391</u>	<u>204,837</u>
Movement in:		
Loans and advances	(397,714)	(4,661)
Deferred revenue	9,578	(176,501)
Trade and other receivables	23,013	(148,001)
Inventory	(30,394)	190,517
Trade and other payables	(63,591)	223,728
Related parties	231	122
Dividend payable	-	408
Cash generated from operations	<u>(165,514)</u>	<u>290,449</u>

(a) Analysis of changes in loans

At start of the year	1,814,627	1,809,966
Net change	<u>397,714</u>	<u>4,661</u>
At end of year	<u>2,212,341</u>	<u>1,814,627</u>

31. RELATED PARTY TRANSACTIONS

Government of Kenya

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to the Corporation during its formative years to finance its operations. The relevant balances are shown in Note 25.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

31. RELATED PARTY TRANSACTIONS (Continued)

Investment in other related companies

The Corporation invests in other companies with a view to earning dividends and capital gain. The relevant investment balances are shown in Note 18.

Dividends earned during the year are as follows:	2020	2019
	KShs'000	KShs'000
Dividends (Note 7)	<u>480,605</u>	<u>558,611</u>

Dividends earned from investments are declared based on management policies of respective companies where the Corporation has invested.

Key management compensation

Key management includes Executive Director. The compensation paid or payable to the Executive Director is shown below:

	2020	2019
	KShs'000	KShs'000
Salaries	8,049	6,850
Pension	-	-
	<u>8,049</u>	<u>6,850</u>

Directors' remuneration

Fees for services as non-executive directors	19,772	14,093
Other included in key management compensation above	<u>8,049</u>	<u>6,850</u>
	<u>27,821</u>	<u>20,943</u>

Loans and advances to staff

Loans and advances to staff	<u>326,221</u>	<u>336,883</u>
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The Corporation provides loans and advances to staff as benefits based on staff management policies prevailing from time to time. The benefit obtained by staff is subjected to income tax as required under the Income Tax Act, Cap 470 of the Laws of Kenya.

Advances to other related parties

The Corporation grants advances to companies where they have invested in to finance their operations and working capital requirements.

Uchumi House tenants

The Corporation has standing lease agreements with various Government ministries and departments. The amounts receivable from these entities as at 30 June 2020 were as follows:

	2020	2019
	KShs'000	KShs'000
Rent receivable from Government Ministries and Parastatals	103,716	96,773
Rent receivable from other tenants	<u>110,501</u>	<u>129,538</u>
Total rent receivable	<u>214,217</u>	<u>226,311</u>

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

32. CAPITAL COMMITMENTS

Amounts authorised and contracted for:	2020 KShs'000	2019 KShs'000
Investments		
Loans	84,140	254,231
Equity	<u>-</u>	<u>-</u>
Total investments approved	<u>84,140</u>	<u>254,231</u>
Capital commitments		
Total commitments	17,832	216,184
Less: Contracted and engaged	<u>-</u>	<u>(4,072)</u>
	<u>17,832</u>	<u>212,112</u>
Total commitments	<u>101,972</u>	<u>466,343</u>

33. CONTINGENT LIABILITIES

Bank guarantees	73,500	82,999
Legal claims against ICDC	<u>57,725</u>	<u>14,083</u>
	<u>131,225</u>	<u>97,082</u>

As at 30 June 2020, the Corporation had issued guarantees amounting to KShs 73,500,000 (2019 – KShs 82,999,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to KShs 57,724,819 (2019 – KShs 14,083,000) including the interest thereon and costs of the suits. These cases were still pending determination in the courts as at the end of the financial year.

The Corporation has investments in three of the six bottling companies in Kenya. On 26 October 2012, the bottling companies lost a case against the Kenya Revenue Authority (KRA) for contested demand for tax arrears, penalties and interest for the period 2006 to 2009 relating to excise tax on returnable containers.

The bottling companies lodged an appeal against the ruling and in a judgement dated 19th July 2019, the court of appeal overturned the Judgement of the High Court. KRA has petitioned the Supreme Court for leave to challenge the court of Appeal decision against it. The Directors' assessment is that they do not see an exposure as the matter had been determined by the court of Appeal.

34. FUTURE RENTAL COMMITMENT UNDER OPERATING LEASES

The Corporation enters into operating lease arrangements with lessees on its Uchumi House property mostly for a term of 6 years with the Corporation retaining significant risks and rewards of ownership of the premises. These lease contracts also include various clauses to manage incidences of default and upward revision of rent receivable in line with an established rental policy.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

34. FUTURE RENTAL COMMITMENT UNDER OPERATING LEASES (Continued)

The maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting under non - cancellable leases are as follows:

	2020	2019
	KShs'000	KShs'000
Due within 1 year	164,009	126,786
One to two years	116,687	90,392
Two to three years	116,687	90,392
Three to four years	116,687	90,392
Four to five years	116,687	90,392
After 5 years	<u>26,073</u>	<u>72,381</u>
	<u>656,830</u>	<u>560,735</u>

35. EVENTS AFTER THE BALANCE SHEET DATE

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the world causing disruptions to businesses and economic activity and could result in the Corporation being affected financially in the future. The Corporation considers this outbreak to be a non-adjusting event after the reporting period. As the situation is fluid and rapidly evolving, the Corporation is assessing the impact of COVID-19 to its business.

On 25 April 2020, the Kenyan government enacted the Tax Laws (Amendment) Act, 2020 which reduced the corporate tax rate from 30% to 25%. The new rate of 25% is applicable for the 2020 year of income. The effect of application of the revised tax rate was a tax recoverable amount of KShs 54,325,692, see Note 12.

On 23 December 2020, the Kenyan government enacted the Tax Laws (Amendment) Bill 2020 which reversed the Corporate tax rate from 25% back to 30% effective 1 January 2021. The amendment reverses the impact of the changes made on 25 April 2020 with respect to corporate tax rate described above.

On 7 August 2020, the Kenya Government issued an Executive Order No. 5 of 2020 which established a Framework for the Management, Co-ordination, and Integration of Public Port, Rail and Pipeline Services. The objective was enhancement of the Nation's competitiveness in trade and ease-of-doing-business through creation of synergy between the Kenya Ports Authority (KPA), the Kenya Railways Corporation (KRC) and the Kenya Pipeline Company Limited (KPC) all being State Corporations within the transport and logistics sector.

The Order vested the mandate of coordinating the management of the State's investments in Ports, Rail and Pipeline Services in the Industrial and Commercial Development Corporation (ICDC) through the Kenya Transport and Logistics Network (KTLN) on behalf of The National Treasury.

On 2 October 2020, the Government directed that IDB Capital Limited and Tourism Finance Corporation (TFC) be merged into Kenya Development Corporation (KDC) by transferring all their assets and liabilities and subsequent winding up of these institutions.

On 2 July 2021, the Cabinet Secretary, The National Treasury and Planning issued legal Notice No. 113 of 2021 which vested all the assets, liabilities, rights and obligations of ICDC, IDB Capital Limited and TFC in KDC thereby operationalizing the new Corporation.

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

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

35. EVENTS AFTER THE BALANCE SHEET DATE (Continued)

The statute establishing ICDC is not to be repealed and ICDC will remain to co-ordinate the management of KTLN therefore assuming a new mandate.

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

36. CORRECTION OF ERROR

The corporation had investments carried at FVOCI in the year ended 30 June 2019. Some of the investments were disposed of in the year. The Corporation adjusted the cumulative fair value reserve of KShs 81,020,000 through the profit and loss as opposed to through the retained earnings. This was in contravention of IFRS 9 requirements. The prior year financial statements have been restated to correct this error.

The following table summarizes the impact of the restatement on the financial statements of the affected year.

Statement of financial position

There is no impact on the Corporations total assets, total liabilities, and total shareholders' equity.

Statement of financial position

There is no impact on the Corporations total operating, investing, and financing cashflows for the year ended 30 June 2019.

Statement of profit or loss and other comprehensive income

	As previously reported FY19 KShs '000	Correction of an error KShs '000	As restated FY19 KShs '000
For year ended 30 June 2019			
Other Income	915,260	81,020	834,240
Profit before tax	778,445	81,020	697,425
Total comprehensive income	(3,904,834)	81,020	(3,985,854)

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

Appendix 1

ICDC'S Shareholding in subsidiary and associate companies

Related party	Nature of relationship
Government of Kenya	Parent Company
Investment in quoted Companies	
Centum Investment Company Limited	Associate Company (ICDC owns 22.97%)
Eveready (E A) Limited	ICDC owns 17.42% stake
Uchumi Supermarkets Limited	ICDC owns 2% stake
Investment in unquoted Companies	
Agro-Chemical and Food Company Limited	Control over the entity (ICDC owns 28.17%)
Minet Kenya Insurance Brokers Limited	Control over the entity-ICDC owns 20%
Development Bank of Kenya Limited	Control over the entity-ICDC owns 89.32%
Focus Container Freight Station	Control over the entity- ICDC owns 25%
Funguo Investments Limited	ICDC owns 18.71% stake
Isuzu East Africa Limited	Control over the entity- ICDC owns 20%
Kenatco Taxis Limited (In Receivership)	Control over the entity -ICDC owns 100%
Industrial Development Bank Limited	ICDC owns 4.29% stake
Kenya National Trading Corporation Limited	Control over the entity -ICDC owns 100%
KWAL Holdings Limited	Control over the entity -ICDC owns 43.77%
Organic Growers & Packers Limited	Control over the entity -ICDC owns 30.20%
Organic Growers & Packers Limited (preference shares at KShs 20)	Control over the entity -ICDC owns 100%
Almasi Beverages Limited	Control over the entity -ICDC owns 31.55%
South Nyanza Sugar Company Limited	ICDC owns 0.69% stake
Two Rivers Development Limited	ICDC owns 2.50% stake
Sky Foods Limited	ICDC owns 8.40% stake
Sisibo Tea Factory Limited (preference shares at 21%)	Control over the entity -ICDC owns 100%
Global Supply Solutions Limited (preference shares at 100)	Control over the entity -ICDC owns 100%
Njimia Kenya Limited (Preference shares at 1,000)	Control over the entity -ICDC owns 100%
Home and Hospitality Manufacturing Co. Ltd	ICDC owns 11% stake

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION

Appendix 2

Budget versus actual performance

	Final budget 2019-2020 KShs '000	Actuals on comparable basis KShs '000	Performance differences 2019-2020 KShs '000	% deviation from budget %
Revenue				
Operating income	1,173,481	1,099,362	(74,119)	(6%)
Other income	1,352,267	140,173	(1,212,094)	(90%)
Total income	2,525,748	1,239,535	(1,286,213)	(51%)
Operating expenses				
Staff costs	(299,803)	(239,129)	60,674	(20%)
Board expenses	(30,000)	(25,427)	4,573	(15%)
Depreciation and amortization	(22,872)	(22,913)	(41)	0%
Admin expenses	(215,812)	150,547	65,265	(30%)
Interest expense on borrowings	(22,132)	(14,500)	7,632	(34%)
Impairment of investment property	-	(99,459)	(99,459)	100%
Cost of sales – investment property	(819,217)	-	819,217	(100%)
Total operating expenses	(1,409,836)	(551,975)	857,861	(61%)
Operating profit before provisions	1,115,912	687,560	(428,352)	(38%)
Provisions for losses – loans	(98,173)	(125,333)	(27,160)	28%
Provision for equity	-	(11,000)	(11,000)	100%
Provision for sundry debtors	(19,688)	(52,232)	(32,544)	165%
Total provisions	(117,861)	(188,565)	(70,704)	60%
<i>Operating profit after provisions</i>	998,051	498,995	(499,056)	(50%)
Taxation charge	-	(18,426)	(18,426)	-
Profit for period	998,051	480,569	(517,482)	(52%)