



**NCBA**

**UNIT TRUST FUNDS**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2021**

# NCBA UNIT TRUST FUNDS

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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## NCBA UNIT TRUST FUNDS

### CORPORATE INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2021

#### TRUSTEE

KCB Bank Kenya Limited  
7<sup>th</sup> Floor, KCB Towers, Upper Hill  
Junction of Hospital and Kenya Road, Upper Hill  
P.O. Box 30664 - 00100  
Nairobi, Kenya

#### FUND MANAGER

NCBA Investment Bank Limited  
NCBA Annex  
3rd Floor, Upper Hill  
P.O. Box 44559, 00100  
Nairobi, Kenya

#### CUSTODIAN

NCBA Bank Kenya PLC  
NCBA House  
3rd Floor, Masaba Road, Upperhill,  
P.O. Box 44559 - 00100  
Nairobi, Kenya

#### AUDITOR

Deloitte & Touche LLP  
Deloitte Place  
Waiyaki Way, Muthangari Drive  
P.O. Box 40092, 00100  
Nairobi, Kenya

## NCBA UNIT TRUST FUNDS

### TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Trustee submits its report together with the audited financial statements for the year ended 31 December 2021 that disclose the state of affairs of the Funds.

#### INVESTMENT OBJECTIVES

NCBA Unit Trust Fund is an umbrella with three sub Funds each of which is described below:

1. The objective of the **NCBA Equity Fund** is to generate long-term capital growth through investing principally in equities i.e. stocks or shares in corporations' earnings and assets, providing a medium to high-risk profile by investing in stocks of several sectors of the Kenyan economy.

The guiding principles of the NCBA Equity Fund are:

- To research and select a solid spread of shares in companies with proven performance and good prospects for growth.
- To administer the portfolio according to best practice by taking capital profits when appropriate and by spreading shareholding over those economic sectors that meet the criteria of performance and growth.

2. The objective of the **NCBA Fixed Income Fund (formerly NCBA Money Market Fund)** is to generate a total return through investing in a range of debt securities, and fixed deposit instruments or near cash holdings in the Kenyan market, while offering maximum security to the investors.

The guiding principles for the NCBA Fixed Income Fund are:

- To invest only in first class money market instruments spread between institutions of repute.
- To administer the portfolio according to best practice.
- To minimise losses, while maximising on investment returns, by investing in near cash or cash deposits.
- To treat the generation of income as a higher priority than capital growth or as the case may be to place equal emphasis on the generation of income and on capital growth and that (in either case) this may accordingly constrain capital growth.

3. The objective of the **NCBA Dollar Fixed Income Fund (formerly NCBA Dollar Investment Fund)** is to generate total return through investing in a range of low risk debt securities, fixed deposit instruments or near cash holdings in the Kenyan market and offshore. These would generate competitive returns on the capital invested and be denominated in US Dollars.

The guiding principles for the NCBA Dollar Fixed Income Fund are:

- To only invest in instruments issued by institutions of repute.
- To manage and administer the portfolio according to best practice.
- To minimize losses, while maximizing on investment returns, by investing in near cash or cash deposits.
- To disclose investments on a weighted average basis.

#### CHANGES TO INCORPORATION DOCUMENTS

Effective 31 December 2021, the names of the NCBA Money Market Fund and NCBA Dollar Investment Fund were changed to NCBA Fixed Income Fund and NCBA Dollar Fixed Income Fund respectively. The changes were to ensure compliance with the Guidance for Collective Investment Schemes issued by the Capital Markets Authority. The name of the NCBA Equity Fund was retained.

# NCBA UNIT TRUST FUNDS

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

### FUND PERFORMANCE

Fund	Year	Highest Price (based on repurchase price) Kes	Lowest Price (based on repurchase price) Kes
NCBA Equity Fund	2021	180.86	151.48
	2020	176.33	133.96
	2019	171.99	143.50
	2018	181.73	144.57
	2017	171.61	130.74

Fund	Year	Highest Annualised Yield (based on repurchase price) Kes	Lowest Annualised Yield (based on repurchase price) Kes
NCBA Fixed Income Fund	2021	8.33%	6.93%
	2020	8.47%	7.03%
	2019	8.83%	7.67%
	2018	8.24%	7.64%
	2017	8.35%	7.35%

Fund	Year	Highest Yield (based on repurchase price) Kes	Lowest Yield (based on repurchase price) Kes
NCBA Dollar Fixed Income Fund	2021	3.75%	2.53%
	2020	3.69%	2.81%
	2019	3.80%	2.46%

### FUND GROWTH

Fund	2021	2020	2019	2018	2017
NCBA Equity Fund growth	2.05%	-2.43%	4.60%	-12.63%	31.94%
NCBA Fixed Income Fund Growth	38.07%	70.26%	30.31%	20.99%	39.83%
NCBA Dollar Fixed Income Fund	78.71%	109.51%	304.48%	100%	N/A

### INCOME FOR THE YEAR

Year	NCBA Equity Fund (Kes)	NCBA Fixed Income Fund Growth (Kes)	NCBA Dollar Fixed Income Fund (Usd)
2021	8,241,539	925,054,977	50,655
2020	(8,513,625)	651,091,108	244,965
2019	13,217,421	441,827,732	94,119
2018	(8,946,453)	259,967,808	6,455
2017	13,053,459	246,800,042	-

## NCBA UNIT TRUST FUNDS

### TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

#### FUND VALUE AT END OF THE YEAR

Year	NCBA Equity Fund	NCBA Fixed Income Fund	NCBA Dollar Fixed Income Fund
	(Kes)	(Kes)	(Usd)
2021	81,433,739	15,149,958,976	24,869,612
2020	79,797,123	10,972,700,172	13,915,858
2019	81,781,311	6,444,791,860	6,642,239
2018	78,182,727	4,958,111,523	1,642,164
2017	89,487,815	4,097,933,870	-

#### DISCLOSURE TO THE AUDITOR

The Trustee confirms that at the time of approval of this report;

- there is, no relevant audit information of which the Funds' auditor was unaware of; and
- the Trustee has taken all steps that ought to have been taken as Trustee so as to be aware of any relevant audit information and to establish that the Funds' auditor is aware of that information.

#### TERMS OF APPOINTMENT OF THE AUDITOR

Deloitte & Touche LLP are the appointed auditors in accordance with the Funds' Trust Deed and Section 55(A) of the Capital Markets (Licensing Requirements) (General) Regulations, 2002.

The Trustee monitors 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 unit holders.

For: KCB BANK KENYA LTD.

By order of the Trustee  
KCB Bank Kenya Limited

30 March 2022

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

## NCBA UNIT TRUST FUNDS

### TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Kenyan Capital Markets Act requires the Trustee to prepare financial statements for each financial year that give a true and fair view of the financial position of the Funds at the end of the financial year and of its profit or loss for that year. The Trustee is responsible for ensuring that the Funds keeps proper accounting records that are sufficient to show and explain the transactions of the Funds; disclose with reasonable accuracy at any time the financial position of the Fund; and that enables them to prepare financial statements of the Funds that comply with prescribed financial reporting standards and the requirements of the Kenyan Capital Markets Act. They are also responsible for safeguarding the assets of the Funds and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustee accepts responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Capital Markets Act. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Funds ability to continue as a going concern, the Trustee is not aware of any material uncertainties related to events or conditions that may cast doubt upon the Funds' ability to continue as a going concern.

The Trustee acknowledges that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Trustee on 30 March 2022 and signed on its behalf by:

For: KCB BANK KENYA LTD.

By order of the trustee  
KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

## NCBA UNIT TRUST FUNDS

### CHAIRMAN'S STATEMENT TO UNIT HOLDERS FOR THE YEAR ENDED 31 DECEMBER 2021

#### STATEMENT TO THE NCBA UNIT HOLDERS

Dear Unit holders;

I present to you the annual report and financial statements for the year ended 31 December 2021 of the NCBA Unit Trust Funds ("funds").

We appreciate your continued patronage of the NCBA Unit Trust Funds and trust that the funds met your investment and service expectations during the year.

#### 1. Economic Review - 2021

In 2021, global economies experienced a marked economic recovery as trade and social interactions recovered following the roll out of economic stimulus packages and mass vaccination campaigns. These led to easing of movement restrictions. In Kenya, the recovery was exhibited through the key macro-economic indicators as summarised below;

##### GDP Growth Rate

- Economic growth was strong in Q3 2021 with reported GDP growth rate at 9.9%. The strong performance was buoyed by a recovery in various economic sectors.
- Notably, Education, Accommodation and Transport sectors grew by 64.7%, 24.8% and 13% respectively during Q3-2021.
- The Annual GDP growth in 2021 is expected to be at 6.3% as forecasted by The National Treasury.

##### Inflation

- Global and local Inflation was higher in 2021 compared to 2020 driven by higher energy and commodity prices due to supply chain disruptions. Inflation was further worsened by the negative effect of the aggressive stimulus plans rolled out by various Governments in 2020/21. The average annual inflation in Kenya was 6.10%.

##### Exchange Rate

- During 2021, the Kenya Shilling depreciated against the US Dollar and GB Pound by 3.6% and 1.9% respectively, while appreciating against the Euro by 4.0% during the year. It reflected the rising strength of the US Dollar against other global currencies.
- The exchange rates at the end of year were Kes.113.14/USD, Kes.152.05/GBP and Kes.127.99/Euro respectively.

##### Interest rate- Central Bank Rate

- The Central Bank Rate held the CBR rate at 7.00% during 2021 to mitigate adverse economic effects and financial disruptions arising from the pandemic.

##### Interest Rate- Government Securities

- In 2021, interest rates increased across all tenors on the yield curve. The 91Day, 182 Day and 364 Day Treasury bills increased from 6.93%, 7.40% and 8.34% at the end of 2020 to 7.26%, 7.98% and 9.27% at the end of 2021.
- The Treasury bonds yields rose during the year with the largest upward shift concentrated in the bonds between 7 – 12 years tenor.
- Government securities remained attractive to investors as Commercial Bank interest rates declined. Additionally, there was investor flight to safer assets such as Government Bonds.

##### Equity Markets

- The stock exchange posted a positive return for the year with Nairobi All Shares Index (NASI) and NSE-20 Index increasing by 9.4% and 1.8% respectively. The NASI and NSE-20 indices closed the year at 166.46 and 1,902.57 respectively.
- The anticipated rise in developed market interest rates led to a foreign investor flight from local equity markets in the last quarters of 2021.
- The full year earnings are expected to be strongly positive for the Banking and Telecom sectors.



## NCBA UNIT TRUST FUNDS

### CHAIRMAN'S STATEMENT TO UNIT HOLDERS FOR THE YEAR ENDED 31 DECEMBER 2021

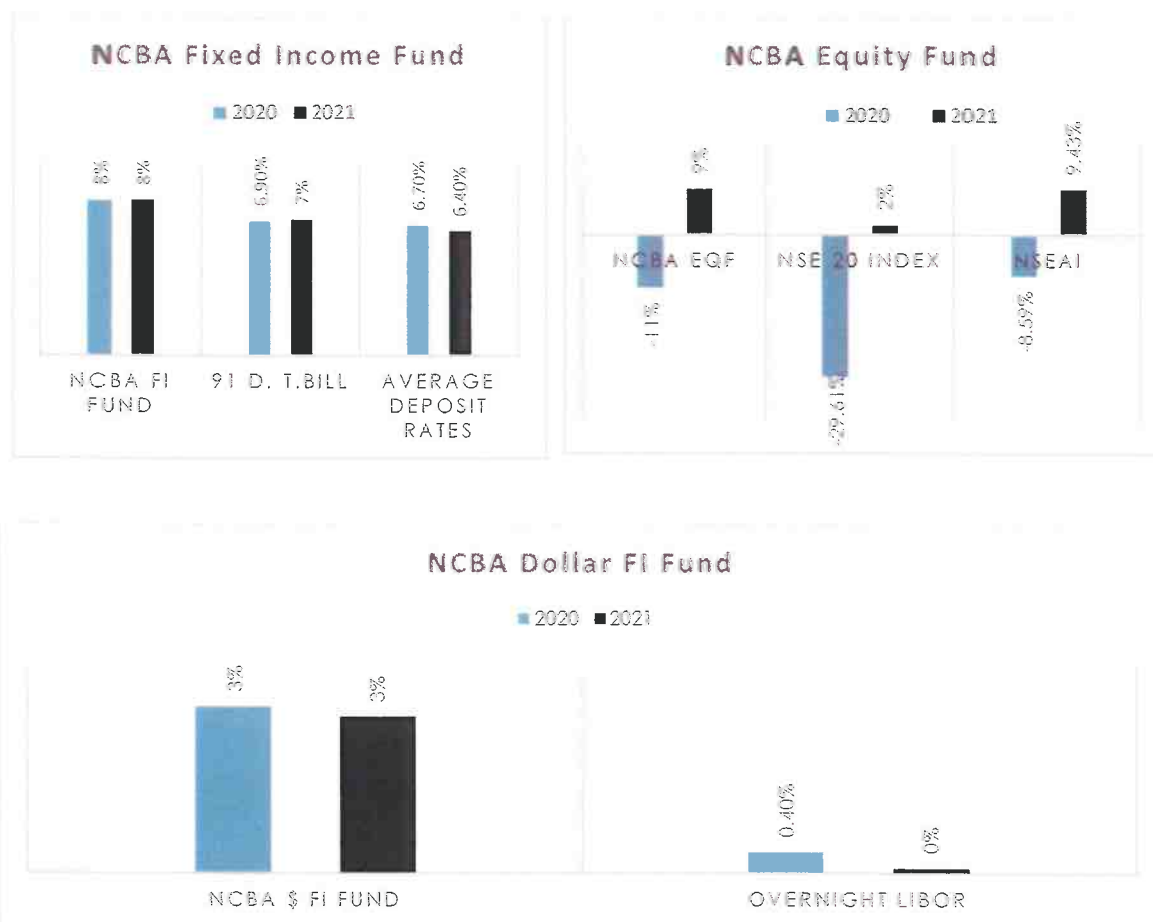
#### STATEMENT TO THE NCBA UNIT HOLDERS (continued)

##### 2. Economic Outlook - 2022

- Global and local economic recovery is like to be sustained into 2022, as a result of reduced movement restrictions. The world is likely to move towards a post pandemic phase following expansion in mass vaccination coverage.
- However, headwinds will be experienced in the recovery journey as various Countries' Central Banks' manage the endemic inflation through reducing market liquidity.
- Locally, effects of a weakening currency, rising interest rates, heightened political temperatures linked to the upcoming elections may adversely affect the economic recovery.
- We expect the investors to shift their investments towards lower risk government securities.
- Despite improving earnings by listed companies, share price performance in 2022 will be more influenced by investor sentiment on market and political risks rather than the quality and quantity of Company earnings.

##### 3. NCBA Unit Trust Fund Performance

The chart below summarises the performance of the NCBA Unit Trust Funds for the year ended 31 December 2021 with a comparison to the performance on 2020 and against relevant benchmarks.



Source: NCBA Research; NSE; CBK, BLOOMBERG

The funds have continued to outperform their respective benchmarks and we are confident we shall sustain the outperformance in 2022. We confirm that there were no material changes in the investment strategies of the funds during the year.

## NCBA UNIT TRUST FUNDS

### CHAIRMAN'S STATEMENT TO UNIT HOLDERS FOR THE YEAR ENDED 31 DECEMBER 2021

#### STATEMENT TO THE NCBA UNIT HOLDERS (continued)

#### 4. NCBA Bank Kenya PLC Changes in the Funds Names

During the year 2021, we changed the names of NCBA Money Market fund and the NCBA Dollar Investment Fund to the NCBA Fixed Income Fund ("NCBA FI Fund") and NCBA Dollar Fixed Income fund ("NCBA Dollar FI Fund") respectively. The changes in names were to ensure compliance with the Guidance for Collective Investment Schemes issued by the Capital Markets Authority in 2020. The name of the NCBA Equity Fund was retained.

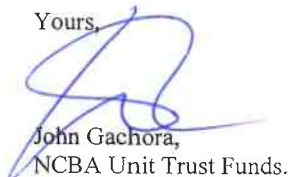
#### 5. Conclusion

I take this chance to thank the service providers to the funds namely; the Fund Trustee-KCB Bank Kenya Plc, Fund Custodian-NCBA Bank Kenya Plc and the Investment Manager-NCBA Investment Bank Limited for their diligence in ensuring the safety of your investments.

We continue to manage the funds towards delivering higher and sustainable returns in a volatile environment, for your benefit as unit holders.

I wish you a prosperous year ahead.

Yours,

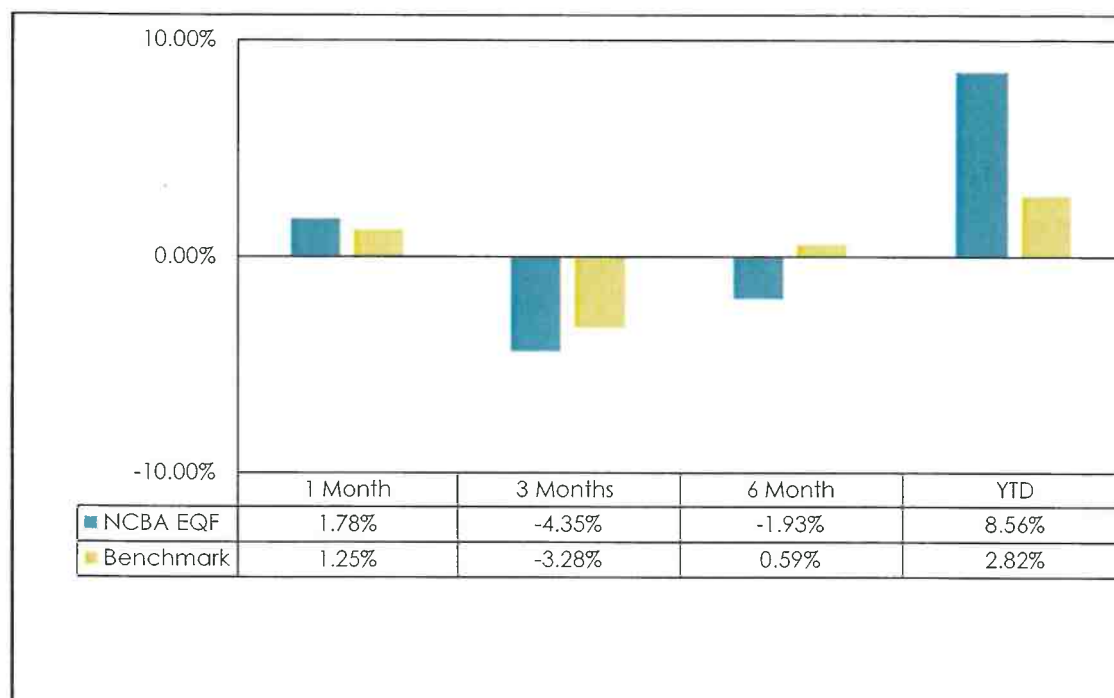


John Gachora,  
NCBA Unit Trust Funds.

## NCBA UNIT TRUST FUNDS

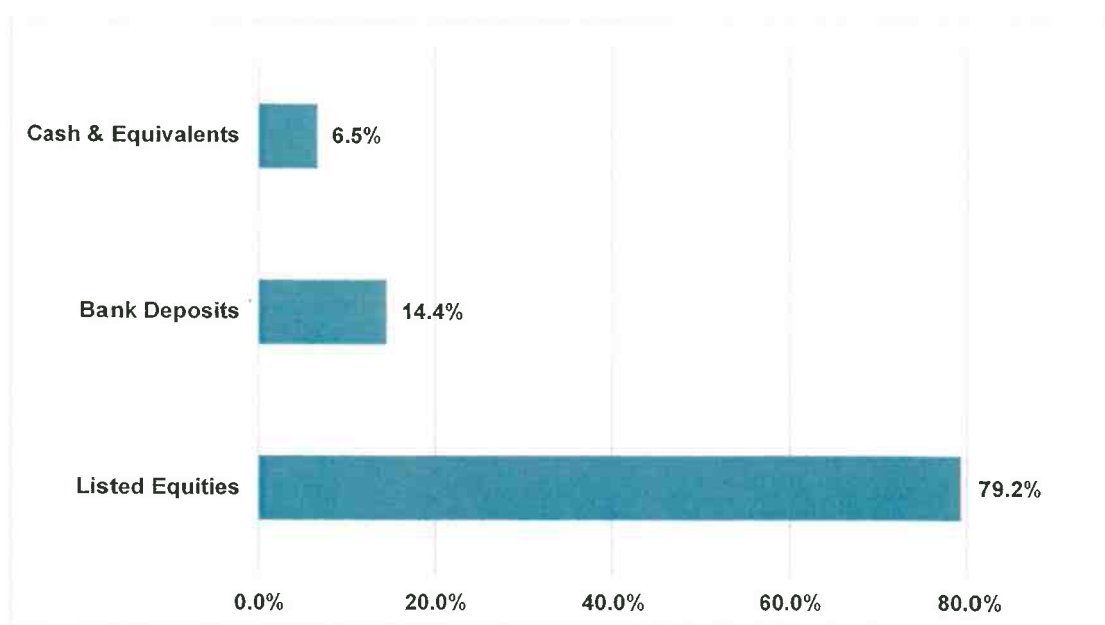
### PERFORMANCE GRAPHS FOR THE YEAR ENDED 31 DECEMBER 2021

#### NCBA Equity Fund performance against NSE 20 share index Benchmark



The yield above is arrived at after netting off Fund expenses from the Fund's investment income and fair value changes

The Benchmark above is NSE 20 Index.

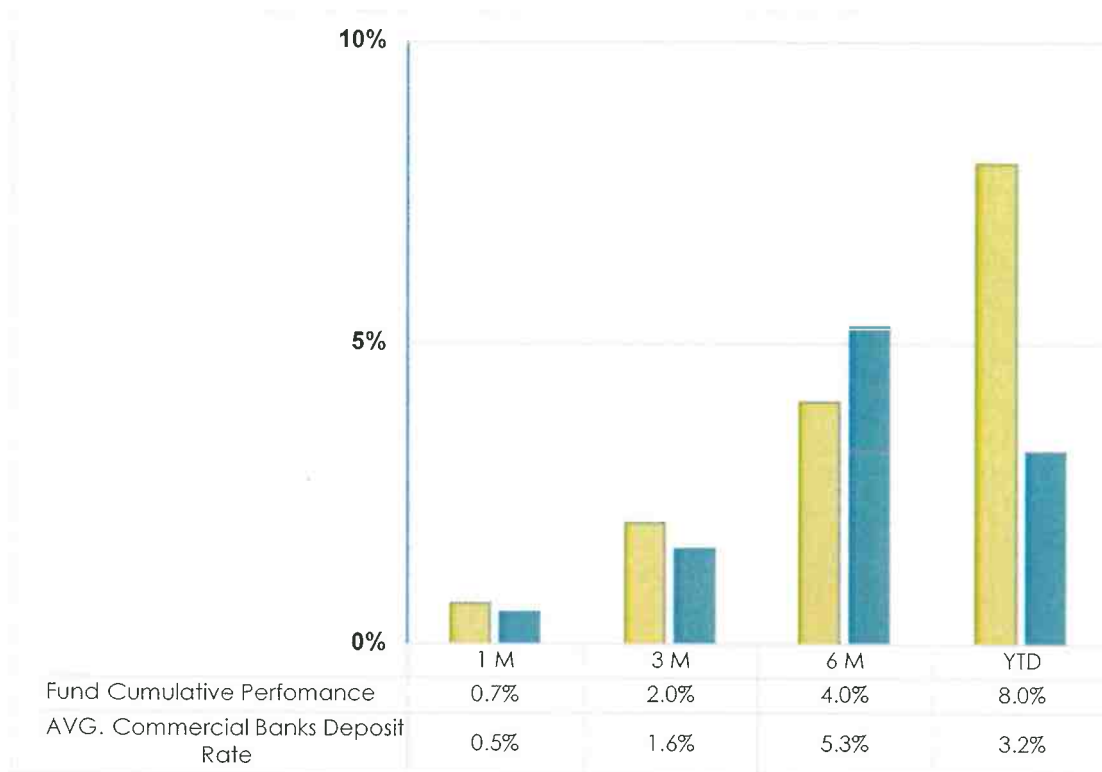


#### NCBA Equity Fund asset allocation as at 31 December 2021

## NCBA UNIT TRUST FUNDS

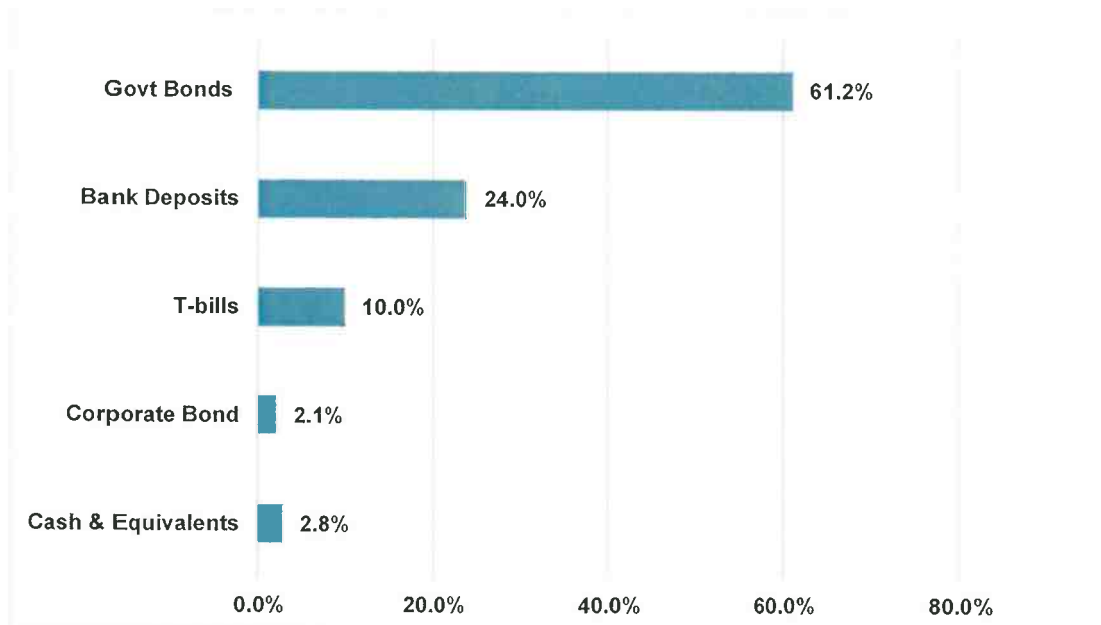
### PERFORMANCE GRAPHS FOR THE YEAR ENDED 31 DECEMBER 2021

#### NCBA Fixed Income Fund performance against Commercial Banks Deposit Rates



The yield above is arrived at after netting of Fund expenses from the Fund's investment income

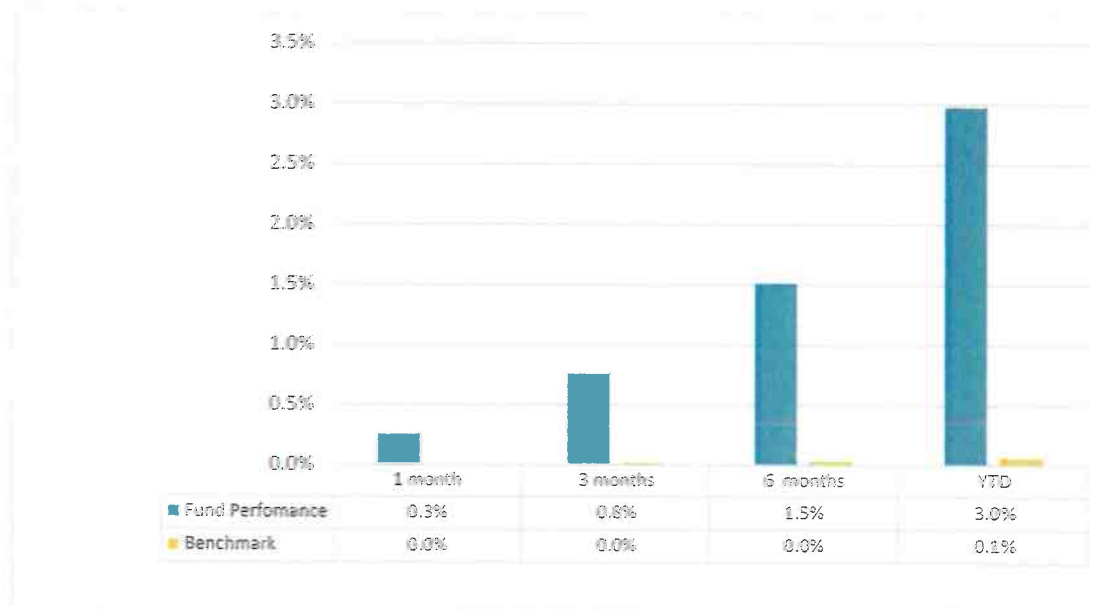
#### NCBA Fixed Income Fund asset allocation as at 31 December 2021



## NCBA UNIT TRUST FUNDS

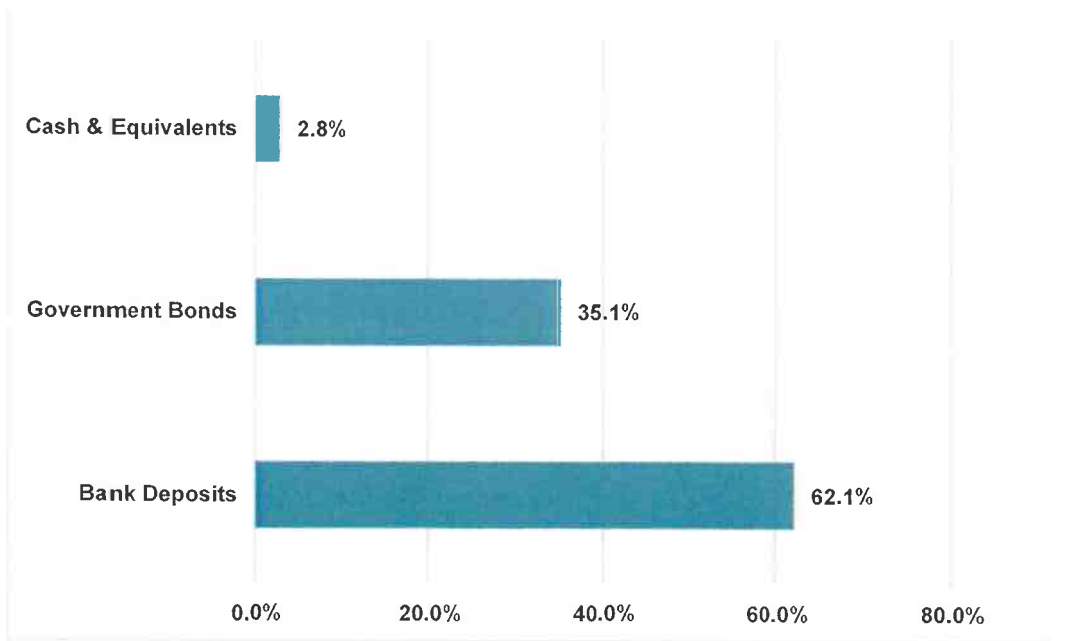
### PERFORMANCE GRAPHS FOR THE YEAR ENDED 31 DECEMBER 2021

#### NCBA Dollar Fixed Income Fund performance against Average Overnight US Dollar Libor Rate



The rate provided is net of applicable management fees and Fund expenses.

#### NCBA Dollar Fixed Income Funds Asset Allocation as at 31 December 2021



## NCBA UNIT TRUST FUNDS

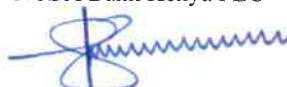
### REPORT OF THE CUSTODIAN FOR THE YEAR ENDED 31 DECEMBER 2021

- a) In accordance with the Capital Markets (Collective Investments Schemes) Regulations, 2001 (the regulations) and the Custody Agreement between NCBA Bank Kenya PLC as the custodian and NCBA Investment Bank Limited as the Fund managers, we confirm that we have discharged the duties prescribed for a Custodian under Regulation 35 of the regulations, NCBA Unit Trusts Funds.

For the year 1 January 2021 to 31 December 2021, we have held the assets for the NCBA Unit Trust Funds, including title deeds, securities and income that accrue thereof, to the order of the Fund managers and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund manager.

- b) We confirm having effected the sale, redemption and cancellation of units in accordance with the creation/liquidation instructions received from the Fund manager.

By order of the custodian  
NCBA Bank Kenya PLC

  
30 March 2022



**NCBA**

CUSTODIAL SERVICES  
P. O. Box 44599 - 00100  
NAIROBI, KENYA

## INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF NCBA UNIT TRUST FUNDS

### Report on the audit of the financial statements

#### *Opinion*

We have audited the accompanying financial statements of the following unit portfolios of NCBA Unit Trust Funds:

- i) NCBA Equity Fund for the year ended 31 December 2021, set out on pages 17 to 33;
- ii) NCBA Fixed Income Fund (formerly NCBA Money Market Fund) for the year ended 31 December 2021, set out on pages 35 to 50; and
- iii) NCBA Dollar Fixed Income Fund (formerly NCBA Dollar Investment Fund) for the year ended 31 December 2021, set out on pages 52 to 68

(the "Fund(s)") which comprise the respective Funds' statement of financial position as at 31 December 2021 and the statements of comprehensive income, changes in unit holder balances and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of NCBA Unit Trust Funds at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001.

#### *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 Funds in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Matter*

The financial statements of NCBA Equity Fund, NCBA Fixed Income Fund (formerly NCBA Money Market Fund) and NCBA Dollar Fixed Income Fund (formerly NCBA Dollar Investment Fund) for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2021.

#### *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. We have determined that there are no key audit matters to communicate in our report.

**MAKING AN  
IMPACT THAT  
MATTERS**

*since 1845*

Partners: D.M. Mbogho; A.N. Muraya; F. O. Aloo; J. Nyang'aya; B.W. Irungu; I. Karim; F. Okwiri; F.O Omondj; F. Mitambo; P. Seroney; D. Waweru; C. Luo.

Deloitte & Touche, a partnership with registration No. 177912, converted to Deloitte & Touche LLP Registration No. LLP-A21DDP effective 14 June 2021.

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited.

## INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF NCBA UNIT TRUST FUNDS (CONTINUED)

### *Other information*

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 identified above 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 on the other information, 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.

### *Responsibilities of the Trustee for the financial statements*

The Trustee is responsible the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001 and for such internal control as the Trustee determines 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 Trustee is responsible for assessing the Funds' 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 Trustee either intends to liquidate the Funds 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 judgement 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 Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee.



**INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF NCBA UNIT TRUST FUNDS  
(CONTINUED)**

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

- Conclude on the appropriateness of the Trustee'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 Funds' 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 Funds 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.

We communicate with the Trustee 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 Trustee, 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.

**Report on other legal requirements**

We confirm that the financial statements have been properly prepared in accordance with the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001.

The Capital Markets Authority (Collective Investments schemes) Regulations, 2001 also requires that in carrying out our audit we consider and report to you on the following matters:

- If the auditor is of the opinion that proper accounting records for the collective investment scheme have not been kept or that the accounts are not in agreement with those records;
- If the auditor has not been given all the information and explanation which, to the best of his knowledge and belief, are necessary for the purpose of his audit; or
- If the auditor is of the opinion that the information given in the report of the Trustee for that period is inconsistent with the accounts.

We confirm that there are no matters to report in respect of the foregoing requirements.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Charles Munkonge Luo**, Practising certificate No. 2294.

*Charles Luo*

**For and on behalf of Deloitte & Touche LLP  
Certified Public Accountants (Kenya)  
Nairobi**

*31 March 2022*

**NCBA**

**EQUITY FUND**

# NCBA EQUITY FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
<b>INCOME</b>			
Interest and dividend income	5	3,994,855	4,249,807
Fair value gain on investments at fair value through profit or loss	10	7,304,251	(10,090,343)
		<hr/>	<hr/>
<b>Total income from investing activities</b>		<b>11,299,106</b>	<b>(5,840,536)</b>
<b>EXPENSES</b>			
Service fees and other expenses	6	(3,057,567)	(2,673,089)
		<hr/>	<hr/>
<b>Profit/(loss) before tax</b>		<b>8,241,539</b>	<b>(8,513,625)</b>
Income tax expense	7	-	-
		<hr/>	<hr/>
<b>Profit/(loss) for the year</b>		<b>8,241,539</b>	<b>(8,513,625)</b>
Other comprehensive income, net of tax		-	-
		<hr/>	<hr/>
<b>Total comprehensive income/(loss) for the year</b>		<b>8,241,539</b>	<b>(8,513,625)</b>
		<hr/>	<hr/>

# NCBA EQUITY FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
<b>ASSETS</b>			
Investment balances	9 (i)	80,726,443	79,545,225
Receivables	9 (iv)	207,522	1,370
Bank balances	9 (iii)	499,774	250,528
<b>TOTAL ASSETS</b>		<b>81,433,739</b>	<b>79,797,123</b>
<b>EQUITY</b>			
Unit holder balances	10	81,188,770	79,558,119
<b>LIABILITIES</b>			
Accruals and other liabilities	11	244,969	239,004
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>81,433,739</b>	<b>79,797,123</b>

The financial statements on pages 17 to 33 were approved for issue by the Trustee on 30 March 2022 and signed on its behalf by:

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

Trustee, KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

# NCBA EQUITY FUND

## STATEMENT OF CHANGES IN UNIT HOLDER BALANCES FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Unit-holder balances Kes.
<b>At 1 January 2020</b>		<b>81,460,011</b>
<b>Total comprehensive income</b>		<b>(8,513,625)</b>
<b>Transactions with unit holders:</b>		
Additional units purchased	10	15,968,039
Units liquidated	10	(9,356,306)
<b>Total transactions with unit holders</b>		<b>6,611,733</b>
<b>At 31 December 2020</b>		<b>79,558,119</b>
<b>At 1 January 2021</b>		<b>79,558,119</b>
<b>Total comprehensive income</b>		<b>8,241,539</b>
<b>Transactions with unit holders:</b>		
Additional units purchased	10	15,631,833
Units liquidated	10	(22,242,721)
<b>Total transactions with unit holders</b>		<b>(6,610,888)</b>
<b>At 31 December 2021</b>		<b>81,188,770</b>

# NCBA EQUITY FUND

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
Operating activities			
Interest and dividend income received		4,026,580	3,646,068
Service fees and other expenses paid		(3,051,292)	(2,748,535)
Net proceeds from sale of investments		7,517,624	(10,945,765)
Net cash generated from/(used in) operating activities		8,492,912	(10,048,232)
Cash flows from financing activities			
Net proceeds from (redemption)/sale of units		(6,611,199)	6,912,456
Net cash (used in)/generated from financing activities		(6,611,199)	6,912,456
Increase/(decrease) in cash and cash equivalents		1,881,713	(3,135,776)
Cash and cash equivalents as at 1 January		3,567,299	6,703,075
Cash and cash equivalents as at 31 December	9 (iii)	5,449,012	3,567,299

# NCBA EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 1 GENERAL INFORMATION

NCBA Equity Unit Trust Fund ('the Fund') is a collective investment scheme which is registered under the Capital Markets Authority Act and is domiciled in Kenya. The Fund was established under a trust deed dated 19 April 2006. The address of its registered office is:

NCBA Investment Bank Limited  
NCBA Centre  
Mara Road, Upper Hill  
P.O Box 30664, 00100  
Nairobi.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

#### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (i) Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**(i) Measurement basis (continued)**

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Fund at the end of the reporting period during which the change occurred.

**(ii) Use of estimates**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

**(iii) Changes in accounting policy and disclosures**

**Adoption of new and revised International Financial Reporting Standards (IFRSs)**

**(i) *Standards and interpretations affecting amounts reported in the current period (and/or prior periods)***

Several new and revised standards and interpretations became effective during the year. The Trustees have evaluated the impact of their new standards and interpretations and none of them had a significant impact on the Fund's financial statements.

**(ii) *Standards and interpretations issued but not yet effective***

Several other standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 January 2021 or later periods. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the Company.

**(iii) *Early adoption***

The Fund did not early adopt any new standards and/or interpretation that are in issue but not yet effective

**(b) Translation of foreign currencies**

**(i) *Functional and presentation currency***

The accounting records are maintained in the currency of the primary economic environment in which the Fund operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which the Fund's functional and presentation currency. The figures shown in the financial statements are stated Kenya Shilling (Shs), rounded to the nearest thousand.

**(ii) *Transactions and balances***

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

**2 Summary of significant accounting policies (continued)**

**(c) Revenue recognition**

Interest income is recognised on a time proportion basis that takes into account the effective interest rate on the asset. Dividends are recognised as income in the year in which the right to receive payment is established.

The Fund recognises revenue when it satisfies its performance obligations by delivering the services (or portions thereof) to a customer. The amount of revenue recognised is the amount the Fund expects to receive in line with the contractual terms of delivery of services, which are triggered when specific criteria

have been met for each of the Fund's activities as described below. The Fund bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(d) Financial instruments**

A financial asset or liability is recognised when the Fund becomes party to the contractual provisions of the instrument.

**Financial Assets**

The Fund's classification is based on the contractual cash flow characteristics of the asset and the business model for managing the financial assets.

Financial assets (except those carried at fair value through profit or loss) are initially recognised in the financial statements at fair value plus transaction costs.

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

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

#### 2 Summary of significant accounting policies (continued)

##### (d) Financial instruments (continued)

###### Financial Assets (continued)

**Fund's business model:** The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated.

###### Impairment of financial assets

The Fund assesses on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

###### Derecognition other than on a modification

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from assets without material delays.

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

###### Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### **2 Summary of significant accounting policies (continued)**

##### **(e) Distribution**

All income arising from receipts of investment income is distributed to unit holders after provision for expenses and taxes. The unit holders have an option of taking their distributions in cash or having the distribution re-invested to form part of the unit holder capital balance.

##### **(f) Unit holder balances**

Unit holder balances are redeemable on demand at an amount equal to a proportionate share of the unit portfolio's net asset value. The balances are carried at the redemption amount that is payable at the statement of financial position date if the holder exercised their right to redeem the balances.

Unit holder balances are classified as liabilities.

##### **(g) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

##### **(h) Accrued expenses**

Accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accrued expenses are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

##### **(i) Provisions**

Provisions are recognised when; the Fund has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

##### **(j) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no presentation changes in these financial statements.

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL RISK MANAGEMENT

The Fund **generates** revenues for unit holders by investing in various income generating activities which involve trading in the stock exchange and trading in government securities. These activities expose the Fund to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the investment managers under direction of the NCBA Investment Bank Limited Board. The NCBA Investment Bank Limited Board works within policies approved by the Fund's Trustee. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against these risks. The NCBA Investment Bank Limited Board provides the investment managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Capital Markets Authority.

##### **Liquidity risk**

The Fund is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are traded at the Nairobi Securities Exchange. The Fund invests only a limited proportion of its assets in investments that are not actively traded; mainly local commercial paper. The Fund's listed securities are considered readily realizable, as they are listed on the Nairobi Securities Exchange.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis and has developed a comprehensive history of the Fund's daily and/or periodic liquidity requirements. Guided by this history, the manager maintains sufficient cash and near cash investments to meet the day to day redemption requirements.

The table below illustrates the Fund's typical redemption history and cash/near cash holdings over the past two years:

	2021	2020
	Kes	Kes
Annual redemption	22,242,721	9,356,306
Annual daily average	85,549	35,986

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3. Financial risk management (continued)

##### Liquidity risk (continued)

##### Maturity Analysis of financial liabilities and Unit Holders balances (all on demand)

Item	2021 Kes	2020 Kes
Unit holder balances	81,188,770	79,558,119
Other liabilities	244,969	239,004
<b>Total</b>	<b>81,433,739</b>	<b>79,797,123</b>

Maturity profile of investments in the Equity Fund:

##### Maturity profile as at 31 December 2021 (Kes)

	On Demand Kes	1- 12 months Kes	Total Kes
<b>Assets</b>			
Bank balance	499,774	-	499,774
Fixed deposits	4,949,238	11,648,719	16,597,957
<b>Total assets</b>	<b>5,449,012</b>	<b>11,648,719</b>	<b>17,097,731</b>
<b>Liabilities</b>			
Other liabilities	244,969	-	244,969
<b>Total</b>	<b>244,969</b>	<b>-</b>	<b>244,969</b>

##### Maturity profile as at 31 December 2020 (Kes)

	On Demand Kes	1 - 3 months Kes	Total Kes
<b>Assets</b>			
Cash	250,528	-	250,528
Fixed deposits	3,316,770	16,525,590	19,842,360
Treasury bills	-	2,054,388	2,054,388
<b>Total assets</b>	<b>3,567,298</b>	<b>18,579,978</b>	<b>22,147,276</b>
<b>Liabilities</b>			
Other liabilities	239,004	-	239,004
<b>Total</b>	<b>239,004</b>	<b>-</b>	<b>239,004</b>

##### Market risk

##### Price risk

The Fund is exposed to equity securities price risk because of investments in quoted shares. To manage its price risk arising from investments in equity, the Fund diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Fund. All quoted shares held by the Fund are traded on the Nairobi Securities Exchange (NSE).

At 31 December 2021, had the general prices of shares and debt securities changed by 1%, the Fund's earnings would have changed by Kes 641,285 (2020: Kes 597,029).

##### Foreign exchange risk

The Fund does not invest offshore or in any foreign currency denominated investments and is therefore not exposed to foreign exchange risk.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3. Financial risk management (continued)**

**Market risk (Continued)**

***Interest rate risk***

The Fund is subject to risk due to fluctuations in the prevailing levels of market interest rates. No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. Fixed interest rate financial instruments expose the Fund to fair value interest rate risk. Variable interest rate financial instruments expose the Fund to cash flow interest rate risk. The Fund's fixed interest rate financial instruments are government securities, deposits with financial institutions, all of which are at fixed rate.

The Fund's investment at 31 December 2021 were all at fixed rates and therefore do not pose interest rate risk.

**Credit risk**

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash equivalents and fixed deposits held in banks, interest bearing investments with Government of Kenya (GoK) and corporate bonds with various entities.

In assessing whether the credit risk on a financial asset has increased significantly, the Fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition.

In doing so, the Fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. For this purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the Fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are, to the extent of materiality, recognised on a collective basis. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about significant financial difficulty of the debtor resulting to long outstanding debt (more than 90 days), a breach of contract etc.

The Government of Kenya has an S&P long term rating of B+ for both long term foreign currency debt and long term local currency debt. The Fund also undertakes further financial analysis and measures to ensure that the institutions issuing the securities are of sound financial health.

The investment manager, through a centralized, NCBA Group, counterparty review team carries out a quarterly annual due diligence investigation on banks to determine those that qualify for deposits. The criteria used in the due diligence exercise is rigorous and assess such parameters as capital adequacy ratios, liquidity ratios, non-performing loans ratios and other financial ratios. Based on the outcome of this investigation a maximum exposure is set for each financial institution. The latest due diligence approved 20 banks ("Approved Banks") out of 42 financial institutions licensed by the Central Bank of Kenya (CBK) as at 31 December 2021.

The Funds' maximum exposure to credit risk in each of the above categories of assets as at 31 December 2021 and 31 December 2020 is represented by the carrying value of financial assets on the statement of financial position.

None of the balances were past due or impaired as at 31 December 2021 or 31 December 2020. The assessed impairment provision is insignificant.

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3. Financial risk management (continued)

##### Credit risk (continued)

Fair value estimation

IFRS 13 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 and unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Fund's assets that are measured at fair value at 31 December 2021.

##### *Fair value estimation*

The following table presents the Fund's assets that are measured at fair value at 31 December 2021.

Assets	Level 1 Kes	Level 2 Kes	Level 3 Kes	Total balance Kes
Treasury Bonds	-	-	-	-
Equity securities	64,128,486	-	-	64,128,486
<b>Total</b>	<b>64,128,486</b>	<b>-</b>	<b>-</b>	<b>64,128,486</b>

The following table presents the Fund's assets that are measured at fair value at 31 December 2020.

Assets	Level 1 Kes	Level 2 Kes	Level 3 Kes	Total balance Kes
Treasury bonds	-	2,054,388	-	2,054,388
Equity securities	57,648,477	-	-	57,648,477
<b>Total</b>	<b>57,648,477</b>	<b>2,054,388</b>	<b>-</b>	<b>59,702,865</b>

None of the Fund's liabilities are measured at fair value.

The carrying value of all other financial assets and liabilities represents their fair value due to their short datedness and ability to reprice.

#### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

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

# NCBA EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 Critical accounting estimates and judgements

#### (i) Measurement of expected credit loss allowance

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

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

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;

Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

### 5 Interest and dividend income

	2021 Kes	2020 Kes
Interest income	1,156,767	1,660,080
Dividend income	2,838,088	2,589,727
	<u>3,994,855</u>	<u>4,249,807</u>

### 6 Service fees and other expenses

Fund Management service fee	2,498,526	2,147,330
Custodian fee	202,611	171,742
Trustee fee	348,310	349,750
CMA fee	-	1,700
Bank charges	5,006	1,530
AGM fee	3,114	1,037
	<u>3,057,567</u>	<u>2,673,089</u>

Fund management fees are paid to NCBA Investment Bank Limited for the professional management of the Fund. These are charged at a rate of 2.53% inclusive of taxes per annum, computed on the daily Fund balances.

### 7 Taxation

#### *Tax status*

The unit trust is registered under the Income Tax Act (Collective Investment Scheme Rules 2002), and is exempt from income tax.

### 8 Distribution

Income is distributed to unit holders semi-annually.



# NCBA EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 i) Investment balances

	2021 Kes	2020 Kes
Deposits with financial institutions at amortised cost	16,597,957	19,842,360
Quoted equity securities at FVTPL	64,128,486	57,648,477
Treasury bonds and bills at amortised cost	-	2,054,388
	<u>80,726,443</u>	<u>79,545,225</u>

### 9 ii) Classification of quoted securities per sector

Telecommunication and technology	15,881,696	19,333,783
Banking	31,524,534	24,871,182
Insurance	7,269,402	6,645,088
Industrial and allied	9,452,854	6,798,424
	<u>64,128,486</u>	<u>57,648,477</u>

### iii) Cash and cash equivalents

Bank balance	499,774	250,529
Deposits on demand	4,949,238	3,316,770
	<u>5,449,012</u>	<u>3,567,299</u>

For purposes of the cash-flow statement, cash and cash equivalents are represented by the above balances

### iv) Receivables

KCB Bank dividend	207,522	-
Interest receivable	-	1,370
	<u>207,522</u>	<u>1,370</u>

### v) Fixed Deposits

Maturing within 364 Days	11,513,632	16,177,178
Accrued interest	135,087	348,412
Deposits on call	4,900,000	3,276,000
Accrued interest deposits on call	49,238	40,770
	<u>16,597,957</u>	<u>19,842,360</u>

# NCBA EQUITY FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Classification of quoted securities per sector (Continued)

#### vi) Treasury Bonds

	2021 Kes.	2020 Kes.
At 1 January	2,054,388	-
Purchases	-	1,932,950
Withdrawals/maturities	(2,032,101)	-
Changes in fair value	(22,287)	121,438
<b>At 31 December</b>	<b>-</b>	<b>2,054,388</b>

The weighted average rate on fixed deposits was 8.3% (2020; 7.6%) and the weighted average interest rate on Call deposits was 7.6% (2020; 5.7%).

The weighted average rate on Treasury bonds was 11.3% (2020; 11.3%)

### 10. Unit holder liabilities

	No. of units	2021 Value Kes	No. of units	2020 Value Kes
At start of year	526,251	79,558,119	473,758	81,460,011
Creations	93,503	15,631,834	109,155	15,968,039
Liquidations	(133,687)	(22,242,721)	(56,662)	(9,356,306)
Income available for distribution	-	937,287	-	1,576,718
Changes in fair value of investments	-	7,304,251	-	(10,090,343)
<b>At end of the year</b>	<b>486,067</b>	<b>81,188,770</b>	<b>526,251</b>	<b>79,558,119</b>

### 11 Accruals and other payables

	2021 Kes.	2020 Kes.
Service fees payable to NCBA Investment Bank Limited	170,377	168,253
VAT	27,260	23,555
Custodian fee	16,017	15,458
Trustee fee	29,000	29,000
CMA fee	1,700	1,700
AGM fee	615	1,038
	<b>244,969</b>	<b>239,004</b>

## NCBA EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 12 Related party transactions

NCBA Equity Fund is currently managed by NCBA Investment Bank Limited. The Fund is related to NCBA Group PLC.

##### a) Purchases of units by related parties

	2021 Kes.	2020 Kes.
<i>Unit holder balances:</i>		
NCBA Group PLC	21,191,294 =====	19,235,779 =====

##### b) Service fees

Service fees to related parties were as follows:

NCBA Investment Bank Limited	2,151,354 =====	1,876,703 =====
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##### c) Balances due to related parties

Service fees payable to NCBA Investment Bank Limited	170,377 =====	168,253 =====
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#### 13 Events after the reporting period

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure.

**NCBA FIXED INCOME FUND**

**(Formerly NCBA MONEY MARKET FUND)**

NCBA FIXED INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
<b>Income</b>			
Interest income	5	1,292,547,930	852,289,920
Fair value (loss)/gains on investments at fair value through profit or loss	9(iv)	(6,842,493)	27,505,024
<b>Total income from investing activities</b>		<b>1,285,705,437</b>	<b>879,794,944</b>
<b>Expenses</b>			
Service fees and other expenses	6	(360,650,460)	(228,703,837)
<b>Profit before tax</b>		<b>925,054,977</b>	<b>651,091,107</b>
Income tax expense	7	-	-
<b>Profit for year</b>		<b>925,054,977</b>	<b>651,091,107</b>
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>925,054,977</b>	<b>651,091,107</b>

# NCBA FIXED INCOME FUND

## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
<b>ASSETS</b>			
Investment balances	9 (i)	15,132,978,716	10,971,611,114
Bank balances	9 (ii)	16,980,260	1,089,058
<b>TOTAL ASSETS</b>		<b>15,149,958,976</b>	<b>10,972,700,172</b>
<b>EQUITY</b>			
Unit holder balances	10	15,115,007,614	10,948,713,692
<b>LIABILITIES</b>			
Accruals and other liabilities	11	34,951,362	23,986,480
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,149,958,976</b>	<b>10,972,700,172</b>

The financial statements on pages 35 to 50 were approved for issue by the Trustee on 30 March 2022 and signed on its behalf by:

For: KCB BANK KENYA LTD.  
  
 CORPORATE TRUSTEE  
 Trustee, KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.  
  
 CORPORATE TRUSTEE

# NCBA FIXED INCOME FUND

## STATEMENT OF CHANGES IN UNIT HOLDER BALANCES FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Unit holder balances Kes.
Year ended 31 December 2020		
At 1 January 2020		6,429,849,462
Total comprehensive income		651,091,108
Transactions with unit holders:		
Additional units purchased	10	12,177,453,128
Units liquidated	10	(8,240,708,145)
Distributions paid out in cash	10	(68,971,861)
Total transactions with unit holders		3,867,773,122
At 31 December 2020		10,948,713,692
Year ended 31 December 2021		
At 1 January 2021		10,948,713,692
Total comprehensive income		841,421,278
Transactions with unit holders:		
Additional units purchased	10	16,387,334,652
Units liquidated	10	(13,062,462,008)
Total transactions with unit holders		3,324,872,644
At 31 December 2021		15,115,007,614

# NCBA FIXED INCOME FUND

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Kes.	2020 Kes.
Cash flows from operating activities			
Interest income received		1,016,993,537	627,460,344
Fees paid		(344,535,597)	(285,238,481)
Net proceeds from sale of investments		(4,027,809,648)	(3,834,387,362)
Net cash used in operating activities		(3,355,351,708)	(3,492,165,499)
Cash flows from financing activities			
Net proceeds from sale of units		3,319,627,933	3,933,366,807
Net cash generated from financing activities		3,319,627,933	3,933,366,807
Net (decrease)/increase in cash and cash equivalents		(35,723,775)	441,201,308
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		500,285,682	59,084,374
Cash and cash equivalents at 31 December	9 (ii)	464,561,907	500,285,682



# NCBA FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 1 General information

NCBA Fixed Income Fund ('Formerly NCBA Money Market Fund') is a collective investment scheme which is registered under the Capital Markets Authority Act and is domiciled in Kenya. The Fund was established under a trust deed dated 19 April 2006. The address of its registered office is:

NCBA Investment Bank Limited  
NCBA Annex  
Hospital road, Upper Hill  
P.O Box 44599, 00100  
Nairobi.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (i) Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Fund at the end of the reporting period during which the change occurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 Summary of significant accounting policies (continued)**

(a) Basis of preparation (continued)

*(i) Use of estimates*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

*(ii) Changes in accounting policy and disclosures*

Adoption of new and revised International Financial Reporting Standards (IFRSs)

*(iii) Standards and interpretations affecting amounts reported in the current period (and/or prior periods)*

Several new and revised standards and interpretations became effective during the year. The Trustees have evaluated the impact of their new standards and interpretations and none of them had a significant impact on the Fund's financial statements.

*(iv) Standards and interpretations issued but not yet effective*

Several other standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 January 2021 or later periods. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the Company.

*(v) Early adoption*

The Fund did not early adopt any new standards and/or interpretation that are in issue but not yet effective

b) Translation of foreign currencies

*(i) Functional and presentation currency*

The accounting records are maintained in the currency of the primary economic environment in which the Fund operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which the Fund's functional and presentation currency. The figures shown in the financial statements are stated Kenya Shilling (Shs), rounded to the nearest thousand.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

(c) Revenue recognition

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

The Fund recognises revenue when it satisfies its performance obligations by delivering the services (or portions thereof) to a customer. The amount of revenue recognised is the amount the Fund expects to receive in line with the contractual terms of delivery of services, which are triggered when specific criteria have been met for each of the Fund's activities as described below. The Fund bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 Summary of significant accounting policies (continued)**

(d) Financial instruments

A financial asset or liability is recognised when the Fund becomes party to the contractual provisions of the instrument.

Financial assets

The Fund's classification is based on the contractual cash flow characteristics of the asset and the business model for managing the financial assets.

Financial assets (except those carried at fair value through profit or loss) are initially recognised in the financial statements at fair value plus transaction costs.

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

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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

**Fund's business model:** The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated

Impairment of financial assets

The Fund assesses on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

## NCBA FIXED INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (continued)

##### (d) Financial instruments (continued)

###### Financial Assets (continued)

###### Derecognition other than on a modification

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from assets without material delays.

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

##### (e) Distribution

All income arising from receipt of investment income is distributed to unit holders after provision for expenses and taxes. The unit holders have an option of taking their distributions in cash or having the distribution re-invested to form part of the unit holder capital balance.

##### (f) Unit holder balances

Unit holder balances are redeemable on demand at an amount equal to a proportionate share of the unit portfolio's net asset value. The balances are carried at the redemption amount that is payable at the statement of financial position date if the holder exercised their right to redeem the balances.

Unit holder balances are classified as liabilities.

##### (g) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

##### (h) Accrued expenses

Accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accrued expenses are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

## NCBA FIXED INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (continued)

##### (i) Provisions

Provisions are recognised when; the Fund has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### 3 Financial risk management

The Fund generates revenues for unit holders by investing in various income generating activities which involve trading in the stock exchange and trading in government securities. These activities expose the Fund to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the investment managers under direction of the NCBA Investment Bank Limited Board. The NCBA Investment Bank Limited Board works within policies approved by the Fund's Trustee. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against these risks. The NCBA Investment Bank Limited Board provides the investment managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Capital Markets Authority.

##### *Liquidity risk*

The Fund is exposed to daily cash redemptions of redeemable Units. It therefore invests the majority of its assets in bank deposits and treasury bills traded at the Nairobi Securities Exchange. The Fund's listed securities are considered readily realizable, as they are listed on the Nairobi Securities Exchange.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis and has developed a comprehensive history of the Fund's daily and/or periodic liquidity requirements. Guided by this history, the manager maintains sufficient cash and near cash investments to meet the day to day redemption requirements.

The table below illustrates the Fund's typical redemption history and cash/near cash holdings over the past two years:

	2021	2020
	Kes	Kes
Annual redemption	13,062,462,008	8,240,708,145
Annual daily average	50,240,238	31,695,031

The table below shows the Funds' investments in cash and near cash equivalents at 31 December 2021 and 31 December 2020.

Item	2021	2020
	Kes	Kes
Cash	16,980,260	1,089,058
Cash on call and fixed deposits and treasury bills maturing in less than 3 months	2,519,263,642	1,919,592,346
Total	2,536,243,902	1,920,681,404



NCBA FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management

Liquidity risk (continued)

Maturity analysis of financial liabilities and Unit Holders Balances (all on demand)

Item	2021	2020
	Kes	Kes
Unit holder balances	15,115,007,614	10,948,713,692
Accruals and other payables	34,951,362	23,986,480
<b>Total</b>	<b>15,149,958,976</b>	<b>10,972,700,172</b>

(i) The maturity profile of investments is as below:

Maturity profile -2021 (Kes)

	On Demand	Due within 3 to 5 months	Due within 6 months and 1 year	Due within 1 and 5 years	Due after 5 years	Total
<b>Assets</b>						
Deposits with financial institutions	1,383,872,501	1,008,435,077	1,650,607,337	-	-	4,042,914,915
Treasury bills and bonds	385,902,807	517,756,120	885,199,674	1,275,058,482	7,701,714,290	10,765,631,373
Corporate bonds	-	-	-	324,432,428	-	324,432,428
<b>Total Assets</b>	<b>1,769,775,308</b>	<b>1,526,191,197</b>	<b>2,535,807,011</b>	<b>1,599,490,910</b>	<b>7,701,714,290</b>	<b>15,132,978,716</b>
<b>Liabilities</b>						
Other liabilities	34,951,362	-	-	-	-	34,951,362
<b>Total</b>	<b>34,951,362</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,951,362</b>

Maturity profile -2020 – Kes)

	On Demand	Due within 3 to 5 months	Due within 6 months & 1 year	Due within 1 & 5 years	Due after 5 years	Total
<b>Assets</b>						
Deposits with financial institutions	1,701,210,416	565,668,806	1,468,848,343	153,195,370	-	3,888,922,935
Treasury bills and bonds	239,381,693	525,125,281	917,789,290	653,803,739	4,455,639,417	6,791,739,420
Corporate bonds	-	-	-	290,948,759	-	290,948,759
<b>Total Assets</b>	<b>1,940,592,109</b>	<b>1,090,794,087</b>	<b>2,386,637,633</b>	<b>1,097,947,868</b>	<b>4,455,639,417</b>	<b>10,971,611,114</b>
<b>Liabilities</b>						
Accruals and other liabilities	23,986,480	-	-	-	-	23,986,480
<b>Total</b>	<b>23,986,480</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,986,480</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 Financial risk management (continued)**

**Market risk**

**Price risk**

The Investment Manager moderates this risk through a careful selection and diversification of securities and other financial instruments within specified limits. Total universe of assets in which the Fund could potentially invest are divided into various asset classes namely equities, bonds, deposits and cash. The Fund Manager conducts research on overall economic performance and determines probable sector performances and, therefore, asset allocation. Typically, the choice of investment involves the following steps tailored to minimize the level of exposure to asset classes and specific securities:

1. Strategic Asset Allocation (SAA)

- Is the first step and sets the minimums and maximums for each asset class;
- Long term guideline taking to account investment objectives, asset/liability profile and maturity profile of Funds; and
- Guided in-depth research

Moreover, each asset class is benchmarked against appropriate market indices with the primary objective of outperforming the indices over the medium to longer term

2. Tactical Asset allocation

- Sets the short term (quarterly) ranges for each asset class allowing manager to take advantage of prevailing market conditions;
- Identifies actual assets invested in within each investment class but within the overall strategic range;
- Selection of the specific securities invested in is reviewed monthly by an investment committee.

**Foreign exchange risk**

The Fund does not invest offshore and is therefore not exposed to foreign exchange risk.

**Interest rate risk**

The majority of the Fund's financial assets are interest bearing. As a result, the Fund is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Fixed interest rate financial instruments expose the Fund to fair value interest rate risk. Variable interest rate financial instruments expose the Fund to cash flow interest rate risk. The Fund's fixed interest rate financial instruments are government securities, deposits with financial institutions.

The Fund's investment at 31 December 2021 were all at fixed rates and therefore do not pose interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 Financial risk management (continued)**

**Credit risk**

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash equivalents and fixed deposits held in banks, interest bearing investments with Government of Kenya (GOK) and commercial paper and corporate bonds with various entities.

In assessing whether the credit risk on a financial asset has increased significantly, the Fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort.

There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. For this purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the Fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are, to the extent of materiality, recognised on a collective basis. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about significant financial difficulty of the debtor resulting to long outstanding debt (more than 90 days), a breach of contract etc.

The Government of Kenya has a long term rating of B (Stable) by Standard and Poors (S&P). GoK has not defaulted on debt obligation in the past. The Fund also undertakes further financial analysis and measures to ensure that the institutions issuing the securities are of sound financial health.

The investment manager carries out a quarterly due diligence investigation on banks to determine those that qualify for deposits. The criteria used in the due diligence exercise is rigorous and assess such parameters as capital adequacy ratios, liquidity ratios, non-performing loans ratios and other financial ratios. Based on the outcome of this investigation a maximum exposure is set for each financial institution. The latest due diligence approved 43 banks ("Approved Banks") out of 47 financial institutions licensed by the Central Bank of Kenya (CBK) as at 31st December 2014.

The Funds' maximum exposure to credit risk in each of the above categories of assets as at 31 December 2021 and 31 December 2020 is represented by the carrying value of financial assets on the statement of financial position.

None of the balances were past due or impaired as at 31 December 2021 or 31 December 2020. The assessed impairment provision is insignificant.



## NCBA FIXED INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (continued)

##### Fair value estimation

IFRS 13 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 and unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Fund's assets that are measured at fair value at 31 December 2021.

Assets	Level 1	Level 2	Level 3	Total balance
	Kes	Kes	Kes	Kes
Treasury Bonds	-	9,248,616,145	-	9,248,616,145
Corporate bonds	-	324,432,428	-	324,432,428
<b>Total</b>	-	<b>9,573,048,573</b>	-	<b>9,573,048,573</b>

The following table presents the Fund's assets that are measured at fair value at 31 December 2020.

Assets	Level 1	Level 2	Level 3	Total balance
	Kes	Kes	Kes	Kes
Treasury Bonds	-	5,393,825,300	-	5,393,825,300
Corporate bonds	-	290,948,759	-	290,948,759
<b>Total</b>	-	<b>5,684,774,059</b>	-	<b>5,684,774,059</b>

The fair value of financial instruments that are not traded in an active market (for example, government bonds) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Fund had no financial instruments classified as level 3 at 31 December 2021 and 31 December 2020. There were no transfers between levels in 2021 and 2020. The carrying value of all other financial assets and liabilities represents their fair value due to their short datedness and ability to reprice.

#### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

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

# NCBA FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 Critical accounting estimates and judgements

#### *Measurement of expected credit loss allowance*

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

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

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

### 5. Interest income

The income of the Fund is derived from liquid assets in the portfolio such as treasury bills, bonds and deposits with financial institutions.

	2021 Kes	2020 Kes
Interest income	1,292,547,930	852,289,921

### 6. Service fees and other expenses

Fund management fees	303,603,025	193,202,172
Custodian fees	31,359,394	20,084,389
Trustee fees	22,252,497	14,348,950
CMA fees	-	134,400
Bank charges	3,004,601	657,491
AGM Fees	430,943	276,435
	<b>360,650,460</b>	<b>228,703,837</b>

Fund management fees were paid to NCBA Investment Bank Limited for the professional management of the Fund. They are charged at a rate of 2% inclusive of taxes per annum, computed on the daily Fund balances.

### 7 Taxation

#### *Tax status*

The unit trust is registered under the Income Tax Act (Collective Investment Scheme Rules 2002) and is exempt from income tax.

### 8 Distribution

All of the Fund's income is distributed to unit holders on a monthly basis.

# NCBA FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 (i) Investment balances

	2021 Kes.	2020 Kes.
Deposits with financial institutions	4,042,914,915	3,888,922,935
Treasury Bills	1,517,015,228	1,397,914,120
Kenya Government securities	9,248,616,145	5,393,825,300
Corporate bonds	324,432,428	290,948,759
	<u>15,132,978,716</u>	<u>10,971,611,114</u>

### 9 (ii) Cash and cash equivalents

Bank balances	16,980,260	1,089,058
Demand deposits	447,581,647	499,196,624
	<u>464,561,907</u>	<u>500,285,682</u>

### 9 (iii) Fixed Deposits

Maturing within 364 Days	3,496,057,367	3,296,295,940
Accrued interest	99,275,901	93,430,372
Deposits on call	445,800,000	494,000,000
Accrued interest deposits on call	1,781,647	5,196,623
	<u>4,042,914,915</u>	<u>3,888,922,935</u>

### 9 (iv) Treasury Bonds

At 1 January	5,393,825,300	2,689,730,166
Purchases	5,727,283,803	3,502,492,650
Withdrawals/maturities	(1,865,650,465)	(825,902,540)
Changes in fair value	(6,842,493)	27,505,024
	<u>9,248,616,145</u>	<u>5,393,825,300</u>

### 9 (v) Corporate Bonds

At 1 January	290,948,759	339,448,728
Purchases	321,900,035	-
Withdrawals/maturities	(288,416,366)	(48,499,969)
Changes in fair value	-	-
	<u>324,432,428</u>	<u>290,948,759</u>

The weighted average rate on fixed deposits was 8.5% (2020; 6.5%) and the weighted average interest rate on Call deposits was 8.3% (2020; 5.1%).

The weighted average rate on Treasury bonds was 12% (2020; 12.1%)

The weighted average rate on Corporate Bonds was 12.8% (2020; 13.8%)

# NCBA FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10. Unit holder liabilities

	2021 Kes.	2020 Kes.
At start of year	10,948,713,692	6,429,849,463
Creations	16,387,334,652	12,177,453,127
Liquidations	(13,062,462,008)	(8,240,708,145)
Income available for distribution	841,421,278	651,091,108
Distributions paid in the year	-	(68,971,861)

At end of the year	<b>15,115,007,614</b>	<b>10,948,713,692</b>
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Each unit in the Fixed Income Fund represents one shilling in investment.

### 11 Accruals and other payables

	2021 Kes.	2020 Kes.
Service fees payable to NCBA Investment Bank Limited	29,801,741	20,140,948
Custodian fee	2,986,803	2,135,942
Trustee fee	1,788,104	1,276,282
CMA fee	134,400	134,400
Audit fee	155,259	155,259
AGM fee	85,055	143,649
	<b>34,951,362</b>	<b>23,986,480</b>

### 12 Related party transactions

NCBA Fixed Income Fund (formerly NCBA Money Market Fund) was managed by Old Mutual Investment Services (Kenya) Limited (OMIS), which is not a related party until 31 October 2014. The Fund is currently managed by NCBA Investment Bank Limited. The Fund is related to NCBA Group PLC.

#### (a) Service fees

Service fees to related parties were as follows:

	2021 Kes	2020 Kes
NCBA Investment Bank Limited	<b>303,603,025</b>	<b>184,835,375</b>

#### (b) Balances due to related parties

Service fees payable to NCBA Investment Bank Limited  
(Note 11)

<b>29,801,741</b>	<b>20,140,948</b>
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### 13 Events after the reporting period

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure.

**NCBA DOLLAR FIXED INCOME FUND**

**(Formerly NCBA DOLLAR INVESTMENT FUND)**

# NCBA DOLLAR FIXED INCOME FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Usd.	2020 Usd.
<b>Income</b>			
Interest income	5	688,636	468,136
Fair value gain on investments at fair value through profit or loss	9(iv)	(352,559)	(73,523)
<b>Total income from investing activities</b>		336,077	394,613
<b>Expenses</b>			
Service fees and other expenses	6	(285,422)	(149,648)
<b>Profit before tax</b>		50,655	244,965
Income tax expense		-	-
<b>Profit for year</b>		50,655	244,965
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income for the year</b>		50,655	244,965

# NCBA DOLLAR FIXED INCOME FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021	2020
	s	Usd.	Usd.
<b>ASSETS</b>			
Investment balances	9 (i)	24,864,667	13,912,523
Bank balances	9 (ii)	4,945	3,335
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>24,869,612</b>	<b>13,915,858</b>
		<hr/>	<hr/>
<b>EQUITY</b>			
Unit holder balances	10	24,809,184	13,877,127
		<hr/>	<hr/>
<b>LIABILITIES</b>			
Current liabilities	11	60,428	38,731
		<hr/>	<hr/>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>24,869,612</b>	<b>13,915,858</b>
		<hr/>	<hr/>

The financial statements on pages 52 to 68 were approved for issue by the trustee on 30 March 2022 and signed on its behalf by:

For: KCB BANK KENYA LTD.

  
CORPORATE TRUSTEE

Trustee, KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.

  
CORPORATE TRUSTEE

# NCBA DOLLAR FIXED INCOME FUND

## STATEMENT OF CHANGES IN UNIT HOLDER FOR THE PERIOD ENDED 31 DECEMBER 2021

	Notes	Unit holder balances Usd
Year ended 31 December 2020		
At 1 January 2020		6,583,385
Total comprehensive income		244,965
Transactions with unit holders:		
Additional units purchased	10	11,769,469
Units liquidated	10	(4,720,692)
Total transactions with unit holders		7,048,777
At 31 December 2020		13,877,127
Year ended 31 December 2021		
At 1 January 2021		13,877,127
Total comprehensive income		50,655
Transactions with unit holders:		
Additional units purchased	10	20,914,986
Units liquidated	10	(10,033,584)
Total transactions with unit holders		10,881,402
At 31 December 2021		24,809,184



# NCBA DOLLAR FIXED INCOME FUND

## STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2021

	Notes	2021 Usd.	2020 Usd.
Operating activities			
Interest income received		631,090	271,827
Fees paid		(263,160)	(211,272)
Net proceeds from sale of investments		(11,847,237)	(6,761,756)
Net cash used in operating activities		(11,479,307)	(6,701,201)
Cash flows from financing activities			
Net proceeds from sale of units		10,881,402	7,048,777
Net cash generated from financing activities		10,881,402	7,048,777
Increase in cash and cash equivalents		(597,905)	347,576
Movement in cash and cash equivalents			
Cash and cash equivalents as at 1 January		1,353,483	1,005,907
Net Increase in cash and cash equivalents		(597,905)	347,576
Cash and cash equivalents as at 31 December	9 (ii)	755,578	1,353,483

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2021

### 1 General information

NCBA Dollar Fixed Income Fund (formerly NCBA Dollar Investment Fund) ('the Fund') is a collective investment scheme which is registered under the Capital Markets Authority Act and is domiciled in Kenya. The Fund was established under a trust deed dated 1 October 2019. The address of its registered office is:

NCBA Investment Bank Limited  
NCBA Annex  
Hospital Road, Upper Hill  
P.O. Box 44599, 00100  
Nairobi.

### 2 Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in US Dollars (USD).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the trustee to exercise its judgement in the process of applying the Fund's accounting policies.

#### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (i) Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**(i) Measurement basis (continued)**

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Fund at the end of the reporting period during which the change occurred.

**(ii) Use of estimates**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

**(iii) Changes in accounting policy and disclosures**

*(i) Standards and interpretations affecting amounts reported in the current period*

Several new and revised standards and interpretations became effective during the year. The Trustees have evaluated the impact of their new standards and interpretations and none of them had a significant impact on the Fund's financial statements.

*(ii) Standards and interpretations issued but not yet effective*

Several other standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 January 2021 or later periods. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the Company.

*(iii) Early adoption*

The Fund did not early adopt any new standards and/or interpretation that are in issue but not yet effective

**(b) Translation of foreign currencies**

*(i) Functional and presentation currency*

The accounting records are maintained in the currency of the primary economic environment in which the Fund operates (the "Functional Currency"). The financial statements are presented in US Dollars (USD), which the Fund's functional and presentation currency. The figures shown in the financial statements are stated in US Dollars (USD), rounded to the nearest thousand.

*(ii) Transactions and balances*

Other currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 Summary of significant accounting policies (continued)****(c) Revenue recognition**

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. The Fund recognises revenue when it satisfies its performance obligations by delivering the services (or portions thereof) to a customer. The amount of revenue recognised is the amount the Fund expects to receive in line with the contractual terms of delivery of services, which are triggered when specific criteria have been met for each of the Fund's activities as described below. The Fund bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(d) Financial instruments**

A financial asset or liability is recognised when the Fund becomes party to the contractual provisions of the instrument.

**Financial assets**

The Fund's classification is based on the contractual cash flow characteristics of the asset and the business model for managing the financial assets.

Financial assets (except those carried at fair value through profit or loss) are initially recognised in the financial statements at fair value plus transaction costs.

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

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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

**Fund's business model:** The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 Summary of significant accounting policies (continued)**

**(d) Financial instruments**

**Financial Assets (continued)**

**Impairment of financial assets**

The Fund assesses on a forward-looking basis, the expected credit losses (“ECL”) associated with its debt instrument assets carried at amortised cost and FVOCI. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

**Derecognition other than on a modification**

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from assets without material delays.

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

**Financial liabilities**

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 Summary of significant accounting policies (continued)

#### (e) Distribution

All income arising from receipt of investment income is distributed to unit holders after provision for expenses and taxes. The unit holders have an option of taking their distributions in cash or having the distribution re-invested to form part of the unit holder capital balance.

#### (f) Unit holder balances

Unit holder balances are redeemable on demand at an amount equal to a proportionate share of the unit portfolio's net asset value. The balances are carried at the redemption amount that is payable at the statement of financial position date if the holder exercised their right to redeem the balances.

Unit holder balances are classified as liabilities.

#### (g) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

#### (h) Accrued expenses

Accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accrued expenses are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

#### (i) Provisions

Provisions are recognised when; the Fund has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### (j) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no presentation changes in these financial statements.



## NCBA DOLLAR FIXED INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management

The Fund generates revenues for unit holders by investing in various income generating activities which involve trading in the stock exchange and trading in government securities. These activities expose the Fund to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

The investment managers under direction of the NCBA Investment Bank Limited Board carry out risk management. The NCBA Investment Bank Limited Board works within policies approved by the Fund's Trustee. Investment managers review the market trends and information available to evaluate the potential exposures.

They then arrive at strategies to mitigate against these risks. The NCBA Investment Bank Limited Board provides the investment managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Capital Markets Authority.

##### a) Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable Units. It therefore invests the majority of its assets in bank deposits and treasury bills traded at the Nairobi Securities Exchange. The Fund's listed securities are considered readily realizable, as they are listed on the Nairobi Securities Exchange.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis and has developed a comprehensive history of the Fund's daily and/or periodic liquidity requirements. Guided by this history, the manager maintains sufficient cash and near cash investments to meet the day to day redemption requirements.

The table below illustrates the Fund's typical redemption history and cash/near cash holdings at 31 December 2021:

	2021	2020
	Usd.	Usd.
Annual redemption	10,033,584	4,720,692
Annual daily average	38,591	18,157

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. Financial risk management (continued)

#### Maturity Analysis of Financial liabilities and Unit Holders Balances (all on demand)

Item	2021	2020
	Usd	Usd
Unit holder balances	24,809,184	13,877,127
Accruals and other payables	60,428	38,731
<b>Total</b>	<b>24,869,612</b>	<b>13,915,858</b>

(i) The maturity profile of investments is as below:

#### Maturity profile -2021 (Usd)

	On Demand	Due within 3 to 5 months	Due within 6 months and 1 year	Due within 1 and 5 years	Due after 5 years	Total
<b>Assets</b>						
Deposits with financial institutions	5,075,146	4,693,628	5,127,100	-	-	14,895,874
Demand deposits	750,633	-	-	-	-	750,633
Euro bonds	-	-	-	212,120	8,490,053	8,702,173
Offshore Investments	-	-	515,987	-	-	515,987
Bank balances	4,945	-	-	-	-	4,945
<b>Total</b>	<b>5,830,724</b>	<b>4,693,628</b>	<b>5,643,087</b>	<b>212,120</b>	<b>8,490,053</b>	<b>24,869,612</b>
<b>Liabilities</b>						
Accruals and other payables	60,428	-	-	-	-	60,428
<b>Total</b>	<b>60,428</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,428</b>

#### Maturity profile -2020 (Usd)

	On Demand	Due within 3 to 5 months	Due within 6 months and 1 year	Due within 1 and 5 years	Due after 5 years	Total
<b>Assets</b>						
Deposits with financial institutions	4,424,855	985,355	2,596,841	-	-	8,007,051
Demand deposits	1,350,149	-	-	-	-	1,350,149
Euro bonds	-	-	600,918	-	3,954,406	4,555,324
Bank balances	3,334	-	-	-	-	3,334
<b>Total Assets</b>	<b>5,778,338</b>	<b>985,355</b>	<b>3,197,759</b>	<b>-</b>	<b>3,954,406</b>	<b>13,915,858</b>
<b>Liabilities</b>						
Accruals and other payables	38,731	-	-	-	-	38,731
<b>Total</b>	<b>38,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,731</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3. Financial risk management (continued)**

**b) Market risk**

**Price risk**

The Investment Manager moderates this risk through a careful selection and diversification of securities and other financial instruments within specified limits. Total universe of assets in which the Fund could potentially invest are divided into various asset classes namely equities, bonds, deposits and cash.

The Fund Manager conducts research on overall economic performance and determines probable sector performances and, therefore, asset allocation. Typically, the choice of investment involves the following steps tailored to minimize the level of exposure to asset classes and specific securities:

**1. Strategic Asset Allocation (SAA)**

- Is the first step and sets the minimums and maximums for each asset class;
- Long term guideline taking to account investment objectives, asset/liability profile and maturity profile of Funds; and
- Guided in-depth research

Moreover, each asset class is benchmarked against appropriate market indices with the primary objective of outperforming the indices over the medium to longer term

**2. Tactical Asset allocation**

- Sets the short term (quarterly) ranges for each asset class allowing manager to take advantage of prevailing market conditions;
- Identifies actual assets invested in within each investment class but within the overall strategic range;
- Selection of the specific securities invested in is reviewed monthly by an investment committee.

**Foreign exchange risk**

The Fund invests in offshore investments in dollars and makes payments to clients in the same currency. The fund is therefore not exposed to foreign exchange risk.

**Interest rate risk**

The majority of the Fund's financial assets are interest bearing. As a result, the Fund is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

Fixed interest rate financial instruments expose the Fund to fair value interest rate risk. Variable interest rate financial instruments expose the Fund to cash flow interest rate risk. The Fund's fixed interest rate financial instruments are government securities, deposits with financial institutions.

At 31 December 2021, an increase/decrease in interest rates of 100 basis points with all other variables held constant would have resulted in a decrease/increase in profit before tax of Usd 125,592(2020: Usd 66,400) arising substantially from revision of interest rates on underlying investments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3. Financial risk management (continued)

## c) Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash equivalents and fixed deposits held in banks, interest bearing investments with Government of Kenya (GoK) and commercial paper and corporate bonds with various entities.

In assessing whether the credit risk on a financial asset has increased significantly, the Fund compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. For this purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the Fund does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are, to the extent of materiality, recognised on a collective basis. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about significant financial difficulty of the debtor resulting to long outstanding debt (more than 90 days), a breach of contract etc.

The Government of Kenya has a long term rating of B (Stable) by Standard and Poors (S&P). GoK has not defaulted on debt obligation in the past. The Fund also undertakes further financial analysis and measures to ensure that the institutions issuing the securities are of sound financial health.

The investment manager carries out a quarterly due diligence investigation on banks to determine those that qualify for deposits. The criteria used in the due diligence exercise is rigorous and assess such parameters as capital adequacy ratios, liquidity ratios, non-performing loans ratios and other financial ratios. Based on the outcome of this investigation a maximum exposure is set for each financial institution. The fund has 19 approved banks out of 38 financial institutions licensed by the Central Bank of Kenya (CBK) as at 31st December 2021.

The Funds' maximum exposure to credit risk in each of the above categories of assets as at 31 December 2021 is illustrated below:

	2021 Usd.	2020 Usd.
Euro bonds	8,702,173	4,555,324
Deposits with financial institutions	15,646,507	9,357,200
Cash and bank balances	4,945	3,334
Off Shore Investment	515,987	-
	<u>24,869,612</u>	<u>13,915,858</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3. Risk management objectives and policies (continued)****d) Fair value estimation**

Effective 1 January 2009, the Fund adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The fund does not currently have any investments stated at fair value.

The fair value of financial assets stated at amortised cost is:

Assets	Level 1	Level 2	Level 3	Total balance
	Usd	Usd	Usd	Usd
Euro Bonds	-	8,702,173	-	8,702,173
<b>Total</b>	-	8,702,173	-	8,702,173

The fair value of financial instruments that are not traded in an active market (for example, government bonds) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

**4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

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

*Measurement of expected credit loss allowance*

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

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

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5 Interest income

The income of the Fund is derived from liquid assets in the portfolio such as treasury bills, bonds and deposits with financial institutions.

	2021 Usd	2020 Usd
Interest income	688,636	468,136

### 6 Service fees and other expenses

Gross Service fees	210,403	112,052
Custodian fees	42,515	21,755
Trustee fees	32,014	15,547
AGM Fees	490	162
CMA fees	-	132
	<u>285,422</u>	<u>149,648</u>

Services fees were paid to NCBA Investment Bank Limited for the professional management of the Fund. They are charged at a rate of 2% inclusive of taxes per annum, computed on the daily Fund balances.

### 7 Taxation

#### *Tax status*

The unit trust is registered under the Income Tax Act (Collective Investment Scheme Rules 2002) and is exempt from income tax.

### 8 Distribution

All of the Fund's income is distributed to unit holders on a monthly basis.

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 (i) Investment balances

	2021 Usd.	2020 Usd.
Deposits with financial institutions	15,646,507	9,357,200
Euro Bonds	8,702,173	4,555,323
Off Shore investment	515,987	-
	<u>24,864,667</u>	<u>13,912,523</u>
	=====	=====

### 9 (ii) Cash and cash equivalents

Cash and bank balances	4,945	3,335
Demand deposits	750,633	1,350,148
	<u>755,578</u>	<u>1,353,483</u>
	=====	=====

### 9 (iii) Fixed Deposits

Maturing within 364 Days	14,815,923	7,899,089
Accrued interest	79,951	107,962
Deposits on call	743,543	1,333,943
Accrued interest Deposits on Call	7,090	16,206
	<u>15,646,507</u>	<u>9,357,200</u>
	=====	=====

### 9 (iv) Euro Bonds

At 1 January	4,555,324	1,725,310
Purchases	6,474,627	2,903,537
Withdrawals/maturities	(1,975,219)	-
Changes in fair value	(352,559)	(73,523)
	<u>8,702,173</u>	<u>4,555,324</u>
	=====	=====

### 9 (v) Offshore

Offshore Placement	500,000	-
Accrued Interest	15,987	-
	<u>515,987</u>	<u>-</u>
	=====	=====

# NCBA DOLLAR FIXED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 (v) Offshore (continued)

The weighted average rate on Fixed deposits was 2.6% (2020; 3.3%) and the weighted average interest rate on Call deposits was 1.9% (2020; 2.2%).

The weighted average rate on Eurobonds was 6.7% (2020; 7.2%)

The weighted average rate on Offshore Investments was 2.6% (2020; N/A)

### 10 Unit holder liabilities

	2021 Usd.	2020 Usd.
At start of year	13,877,127	6,583,385
Creations	20,914,986	11,769,469
Liquidations	(10,033,584)	(4,720,692)
Income available for distribution	50,655	244,965
	<hr/>	<hr/>
At end of the year	<b>24,809,184</b>	<b>13,877,127</b>
	<hr/>	<hr/>

Each unit in the Dollar Fixed Income Fund represents one shilling in investment.

### 11 Accruals and other payables

Service fees payable	38,326	25,750
Custodian fee	6,725	5,661
Trustee fee	15,162	7,030
CMA fee	123	127
AGM fee	92	163
	<hr/>	<hr/>
	<b>60,428</b>	<b>38,731</b>
	<hr/>	<hr/>

### 12 Related party transactions

NCBA Dollar Fixed Income Fund is currently managed by NCBA Investment Bank Limited. The Fund is related to NCBA Group PLC.

#### a) Unit holder balances

NCBA Group PLC	<b>250,451</b>	<b>243,137</b>
	<hr/>	<hr/>

#### b) Service fees

Service fees to related parties were as follows:

NCBA Investment Bank Limited	<b>180,954</b>	<b>116,599</b>
	<hr/>	<hr/>

#### c) Balances due to related parties

Service fees payable to NCBA Investment Bank Limited (Note 10)	<b>32,763</b>	<b>22,555</b>
	<hr/>	<hr/>

### 13 Events after the reporting period

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure.