# CYTONN MONEY MARKET FUND

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2020

| **CONTENTS** | **PAGE** |
|---|---|

| | |
|---|---|
| **Corporate Trustee** | Co-operative Bank of Kenya Limited<br>Co-operative House<br>Haile Selassie Avenue<br>P.O. Box 48321-00100<br>Nairobi |
| **Registered Office** | The Chancery<br>7th Floor<br>Valley Road<br>P.O.Box 20695-00200<br>Nairobi |
| **Fund Manager and Administrators** | Cytonn Asset Mangers Limited<br>The Chancery<br>7th Floor<br>Valley Road<br>P.O.Box 20695-00200<br>Nairobi |
| **Custodians** | KCB Bank Kenya Limited<br>KCB Towers, 7th Floor<br>Junction of Hospital Road and Kenya Road<br>Upper Hill<br>P.O Box 30664-00100<br>Nairobi |
| **Independent Auditor** | Parker Randall Eastern Africa<br>Certified Public Accountants (Kenya)<br>Galleria Business Park, Block 2(A)<br>P.O. Box 25426 - 00100<br>Nairobi |

The Trustee has the pleasure of submitting the fund's report together with the audited financial statements for the year ended 31 December 2020.

## ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The fund was established as Seriani Unit Trust Money Market Fund and began operations on October 2017. This was subsequently changed to Cytonn Money Market Fund which was registered with the Capital Markets Authority on 24 December 2018.

The objective of the fund is to achieve capital preservation by investing in short term money market instruments. It ultimately aims to mobilize savings and allow access to investment assets and returns in investments otherwise restricted to persons with large amounts of capital.

The fund is a unit trust and the interest of the individual members is determined by the value of their units. It is administered by the Trustee who is responsible for its affairs.

The fund is an approved collective investment scheme within the meaning of the Capital Markets Act; and the holders are not liable for the debts of the fund.

## CHANGES TO INCORPORATION DOCUMENTS

The trust deed was amended on 1 January 2019. The changes came into effect in 2020.

## FINANCIAL REVIEW

The statement of profit or loss on page 12 shows profits for the year Kshs 62,313,970 (2019: Kshs 27,714,155). The statement of financial position on page 13 shows total net assets of Kshs 620,970,396 (2019: Kshs 593,299,125).

## PERFOMANCE RECORD

The performance record of the fund over the current and previous period is as shown below:

a) The closing, lowest and highest unit prices of the units of the Fund:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Daily Yield** | **Annual Yield** | **Daily Yield** | **Annual Yield** |
| Closing Yield | 10.20% | 10.74% | 10.36% | 10.91% |
| Lowest Yield | 8.84% | 9.25% | 8.88% | 9.28% |
| Highest Yield | 10.72% | 11.32% | 10.78% | 11.38% |

**PERFOMANCE RECORD (Continued)**

The lowest, highest and average yield of the Funds for the last five years are as shown below:

| | **2020** | **2019** |
|---|---|---|
| Highest price | 10.72% | 10.78% |
| Lowest Price | 8.84% | 8.88% |

b) The total Fund Value, number of units and net income distributed for all units held at the end of the year:

| | **2020** | **2019** |
|---|---|---|
| Total fund Value(Kshs) | 620,970,396 | 593,299,125 |
| Number of units distributed | 2,041,712,814 | 1,139,241,336 |
| Net income distributed(Kshs) | 62,313,970 | 27,714,155 |

There has been no amalgamation or reconstruction of the current units in the fund that have had a material effect on the size of the fund.

**INVESTMENT**

Under the terms of appointment, Cytonn Asset Managers Limited is responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustee.

**MEMBERSHIP**

As at 31 December 2020, the Fund has 17,285 members (2019: 5,035 members).

**FUND ADVISORS**

The names and addresses of the Fund Manager, Trustee, Custodian and Auditor are as shown on page 2.

**STATEMENT AS TO DISCLOSURE TO THE FUND'S AUDITOR**

With respect to the Trustee, as at the time this report was approved;

a) There is, so far as the Trustee is aware, no relevant audit information of which the fund's auditor is unaware; and

b) The Trustee has taken all the steps it ought to have been taken as a Trustee so as to be aware of any relevant audit information and to establish that the fund's auditor is aware of that information.

**TERMS OF APPOINTMENT OF THE AUDITOR**

Parker Randall Eastern Africa were appointed in office vide audit engagement contract dated 22 January 2021 in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

..............................................

**Signed on Behalf of the Fund Manager By**

28 | 09 ............ **2021**

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

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

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and

iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the fund's 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 fund's ability to continue as a going concern

The Trustee wishes to state that via a letter dated 1 October 2020, the Trustee resigned by giving the Fund Manager the requisite 3 months' notice and continues to carry out its fiduciary responsibility until a replacement is appointed to avoid leaving a vacuum in line with regulation 29 of The Capital Markets (Collective Investment Schemes) Regulations, 2001. The Fund Manager appointed Goal Advisory (A) Limited as the new Corporate Trustee if the fund, effective January 1, 2021.

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

Approved by the Trustee on 30th April 2021 and signed on its behalf by:

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

..................................
Trustee

Dear Unit Holder,

We are delighted to report your Fund's performance for the year under review. The fund achieved significant growth realizing cumulative new sales growing by a staggering 4.7% and served to grow net assets under management above the Kshs 600 million mark. Our performance is encouraging bearing in mind the age of your Fund and this lays the foundation for affirming your fund's market position going forward. We therefore take this opportunity to acknowledge your unwavering support and thank all members for their dedicated contribution to the growth of the Cytonn Money Market Fund.

We hereunder highlight some of the developments that characterized the investments markets during the year under review. In 2020, the Kenyan economy contracted by 0.4% due to the 5.7% contraction in Q2'2020 down from a growth of 5.3% recorded in a similar period in 2019. The contraction was largely driven by the 83.3% decline in the accommodation and food sector following the closure of most facilities and also the reduction in tourist arrivals into the country. Some of the other sectors like agriculture helped cushion the economy from further decline. Notably, this was the first contraction since the third quarter of 2001 when the country recorded a 2.5% contraction.

On the fixed income market, the yield on the 91-day, 182-day and 364-day T-bills continued to decline to close at 6.9%, 7.4% and 8.3% in 2020 from 7.2%, 8.2% and 9.8% respectively as at the end of 2019. The Central Bank of Kenya's (CBK's) maintained deliberate efforts to keep rates low by rejecting expensive bids in the auction market. In line with the above, the yield curve experienced downward pressure for the better part of the year but adjusted upwards for the longer-dated papers.

On the equities market, the domestic market was on a downward trajectory, with NASI, NSE 25, and NSE 20 declining by 8.6%, 16.7%, and 29.6%, respectively. Large cap stocks such as Bamburi, Equity Group, Diamond Trust Bank, KCB Group, ABSA Bank Kenya, EABL and Co-operative Bank were among the highest decliners during the year under review. We note that 15 companies issued profit warnings to investors compared to 10 companies in 2019, Kenya Airways was suspended from trading on the securities exchange following the company's operational and corporate restructuring. Additionally, HomeBoyz Entertainment Plc (HEL) was listed by way of introduction on the Growth Enterprise Market Segment (GEMS).

On the real estate market, data from the Kenya National Bureau of Statistics indicate that the sector recorded moderate activities with a general decline in transactions attributed to the tough economic environment in the wake of the Covid-19 pandemic that had adverse effects on the real estate sector. The effects of the pandemic were mainly felt in the sector from Q2'2020 with the real estate and construction recording a 7.1% points decline in growth in Q2'2020, coming in at 6.1% compared to 13.2% growth recorded in Q2'2019. The average rental yield for the real estate market stood at 6.1%, down from 7.0% recorded in 2019. From a sectoral perspective, commercial office space registered average rental yield of 7.0% with retail sector at 7.5%, residential at 4.7% while mixed-use developments and serviced apartments sector registered closed at 7.1%. The average total returns for the market decreased to 5.9% from 9.0% recorded in 2019, largely attributable to a reduced sale and rental rates in a bid to attract and retain tenants amid the pandemic.

During the year 2020, we continued with our digitization agenda enabling existing and potential unitholders to register, invest, withdraw and make utility payments at any time through our mobile and web platforms, making this a first of its kind in Kenya. We believe that this investment will go a long way in delivering an unparalleled customer experience to all our unitholders.

2020 was characterized by volatility across global markets on the back of the outbreak of the novel Corona Virus (COVID-19). Various governments across the world continue to put in place measures to contain the pandemic whilst ensuring macro-economic stability through instituting stimulus packages to avert recession. We expect the Kenyan government's containment measures put in place to continue supporting the gradual recovery in the economy in the long term, despite the current third wave of the pandemic.

We are confident that our differentiated investment philosophy which is anchored on pursuing investments in both traditional and alternative investments presents a solid diversification strategy that will result in investors benefiting from superior returns on their investments. We will therefore place emphasis on delivering superior risk-adjusted returns through effective execution of our investment philosophy.

We take this opportunity once again to thank you for your investment partnership with Cytonn Asset Managers Limited and look forward to working closely with you in realizing your financial and investment goals.

.............................................
**Signed on Behalf of the Fund Manager**

...28/09...... **2021**

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between KCB Bank Kenya Limited as the Custodians and Cytonn Asset Managers Limited as the Fund Manager, we confirm that for the year ended 31 December 2020:

a) we have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations to Cytonn Money Market Fund

b) the issue, sale, redemption and cancellation, and calculation of the price of the Fund's units and the application of the Fund's income have been carried out in accordance with the Regulations; and

For the year ended 31 December 2020, we have held the assets of the Cytonn Money Market Fund, which include title deeds, securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

For: KCB BANK KENYA LTD.

..........................................

**By order of the custodian**
CUSTODY SERVICES

...30.04... **2021**

**REPORT OF THE INDEPENDENT AUDITOR**
**TO THE UNIT HOLDERS OF CYTONN MONEY MARKET FUND**

**Opinion**

We have audited the financial statements of Cytonn Money Market Fund, set out on pages 13 to 34, which comprise the Statement of Financial Position as at 31 December 2020, the Statement of Comprehensive Income, Statements of Changes in Net Assets and Statement of Cash Flows for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Cytonn Money Market Fund as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard and the requirements of Kenyan Capital Markets (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 fund 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 ethical responsibilities in accordance with these requirements and the IESBA Code.

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

**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.

**Other information**

The Trustee is responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than that prescribed by the Kenyan Capital markets (Collective Investments Scheme) as set below;

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is 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's for the financial statements**

The Trustee is responsible for the preparation and fair presentation of these financial statements in accordance with Capital Markets Authority, International Financial Reporting Standard for small and medium sized entities, and for such internal control as the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the fund's ability to continue as a going concern, disclosing as applicable, matters related to the going concern and using the going concern basis of accounting unless the proprietor intend to liquidate the firm or to cease operations or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the firm's ability to continue as a going concern.

- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures or in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence up to the date of the auditor's report. However, future events or conditions may cause the firm 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 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.

Parker Randall | Eastern Africa

Member firm of Parker Randall International

**Report on other legal and regulatory requirements**

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

The Capital Markets Authority (Collective Investment 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 explanations 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 Fund Manager for that period is inconsistent with the accounts.

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

Parker Randall Eastern Africa

**Certified Public Accountants**
**Nairobi**

30/04/2024
**Date**

CPA Michelle Okonji, Practicing certificate No. 2423
Signing partner responsible for the independent audit

| | Notes | 2020<br>Kshs | 2019<br>Kshs |
|---|---|---|---|
| Investment income | **2.0** | 91,902,284 | 42,499,302 |
| Operating expenses | **3.1** | (23,635,323) | (8,832,156) |
| IFRS 9 Impairment provisions | **3.2** | (5,952,991) | (5,952,991) |
| **Profit for the year** | | **62,313,970** | **27,714,155** |

The notes set out on pages 16 to 34 form an integral part of these financial statements.

| | Notes | 2020<br>Kshs | 2019<br>Kshs |
|---|---|---|---|
| **ASSETS** | | | |
| Treasury Bonds | 5 | 225,216,769 | 107,566,499 |
| Unit Trust | 6 | 77,716,885 | 69,475,117 |
| Fixed Deposits | 7 | 233,280,208 | 350,591,273 |
| Unlisted Securities | 9 | 69,624,274 | 59,714,322 |
| Bank Balances | 10 | 17,444,469 | 9,441,258 |
| Trade Receivables | 11 | 6,213,700 | 6,964,574 |
| | | 629,496,304 | 603,753,043 |
| **LIABILITIES** | | | |
| Trade Payables | 12 | 8,525,908 | 10,453,919 |
| **NET ASSETS** | | **620,970,396** | **593,299,125** |
| **FUND BALANCE** | | | |
| Unitholder funds | | 558,656,426 | 565,584,970 |
| Net income for the year | | 62,313,970 | 27,714,155 |
| **MEMBERS FUNDS** | | **620,970,396** | **593,299,125** |

The financial statements on pages 13 to 34 were approved for issue by the Trustees on 30th April 2021 and signed on its behalf by;

THE CO-OPERATIVE BANK OF KENYA LTD. TRUSTEE SERVICES

.........................................
**Trustee**

The notes set out on pages 17 to 34 form an integral part of these financial statements.

| | 2020 | 2019 |
|---|---|---|
| | **Kshs** | **Kshs** |
| Fund balance at start of the year | 593,299,125 | - |
| **Prior year adjustments:** | | 62,777,131 |
| Financial assets | - | (754,459) |
| Fund balance at start of the year-as restated | 593,299,125 | 62,022,672 |
| ***Transactions with unit holders*** | | |
| Proceeds from units issued in the year | 2,041,712,814 | 1,139,241,336 |
| Refunds made on withdrawals by unitholders | (2,014,041,543) | (607,964,883) |
| Distribution to unit holders | (62,313,970) | (27,714,136) |
| ***Net movement in the fund balance*** | ***558,656,426*** | ***565,584,989*** |
| Total income for the year | 62,313,970 | 27,714,136 |
| **At end of year** | **620,970,396** | **593,299,125** |

The notes set out on pages 17 to 34 form an integral part of these financial statements.

| | Notes | 2020<br>Kshs | 2019<br>Kshs |
|---|---|---|---|
| **CASHFLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit for the year | | 62,313,970 | 27,714,136 |
| ***Working capital changes*** | | | |
| Decrease/(Increase) in receivables | | 750,874 | (5,209,382) |
| (Decrease)/Increase in payables | | (1,928,011) | 9,934,273 |
| **Net cash from operating activities** | | **61,136,833** | **32,439,027** |
| | | | |
| **CASHFLOW FROM INVESTING ACTIVITIES** | | | |
| Net movement in unlisted securities | | (9,909,951) | (52,083,782) |
| Net movemenet in treasury bond | | (117,650,270) | (107,566,499) |
| Net movement in unit trust | | (8,241,768) | (69,475,117) |
| **Net cash used in investing activities** | | **(135,801,989)** | **(229,125,398)** |
| | | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Net Proceeds from units issued | | 2,041,712,814 | 1,139,241,336 |
| Refunds made on withdrawals by unit holders | | (2,014,041,543) | (607,964,883) |
| Distribution to unit holders | | (62,313,970) | (27,714,136) |
| **Net cash (used in)/Generated from financing activities** | | **(34,642,699)** | **503,562,317** |
| | | | |
| **(Decrease)/ Increase in cash and cash equivalents** | | **(109,307,854)** | **306,875,946** |
| Movement in cash and cash equivalents | | | |
| At start of year/period | | 360,032,531 | 53,156,585 |
| Increase | | (109,307,854) | 306,875,946 |
| **At end of year** | | **250,724,675** | **360,032,531** |
| **Represented by:** | | | |
| Call and Fixed Deposits | | 233,280,208 | 350,591,274 |
| Bank Balances | | 17,444,469 | 9,441,258 |
| | | **250,724,677** | **360,032,532** |

The notes set out on pages 17 to 34 form an integral part of these financial statements.

## 1. Summary of Significant accounting policies

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

### a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

-Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

-Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

-Level 3 inputs are unobservable inputs for the asset or liability.

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

These financial statements comply with the requirements of the Capital Markets (Collective Investment Schemes) Regulations, 2001. The statement of profit or loss represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

### Going concern

The financial performance of the fund is set out in the report of the Trustee and in the statement of profit or loss. The financial position of the fund is set out in the statement of financial position.

## 1. Significant accounting policies(continued)

### a) Basis of preparation(continued)

Disclosures in respect of principal risks and uncertainties are included within the report of Trustee and disclosures in respect of risk management are set out in Note 13.

***New and amended standards adopted by the fund***

The following new and amended standards and interpretations, which became effective for the first time in the year beginning 1 January 2020, have been adopted but have not had a significant impact on the fund's financial statements.

- Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

The adoption of this standards did not have an impact of the financial statements of the fund.

***New standards, amendments and interpretations issued but not effective***

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the year presented:

Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.
IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2023 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The fund does not issue insurance contracts. The Trustee does not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The fund plans to apply the changes above from their effective dates.

## 1. Significant accounting policies(continued)

### b) Critical accounting estimates and judgement

In the application of the accounting policies, the Trustee is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The Trustee has made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The assumptions and judgements set-out below do not consider the full potential impact of the recent coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the fund.

**Impairment of investments**
The fund reviews their portfolio of investments on an annual basis. In determining whether investments are impaired, the Trustee makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

**Useful lives of equipment**
The Trustee reviews the useful lives and residual values of the items of property, plant and equipment and intangible assets on a regular basis. During the financial year, the Trustee determined no significant changes in the useful lives and residual values.

**Measurement of expected credit losses (ECL)**
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

- A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.
The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

**1. Summary of Significant accounting policies(continued)**

**b) Critical accounting estimates and judgement(continued)**

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

The ECL model applied for financial assets other than trade receivables contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

**Assessment of significant increase in credit risk**

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The fund uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions

**c) Revenue recognition**

Revenue represents the fair value of consideration received or receivable for the sale of services in the course of the fund's activities. It is recognised when it is probable that future economic benefits will flow to the fund and the amount of revenue can be measured reliably.

**1. Summary of Significant accounting policies(continued)**

**c) Revenue recognition (Continued)**

Interest income is recognised in profit or loss as it accrues by reference to the principal outstanding and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

Unrealised/realised gains and losses on valuation of financial assets at the reporting date or sale of financial assets are recognised in profit or loss. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction

**d) Financial instruments**

Financial instruments are recognised when, and only when, the fund becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the fund commits itself to the purchase or sale.

- **Financial assets**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

The fund classifies its financial assets into the following categories:

**i. Amortised cost;**

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

**ii. Fair Value Through Profit or Loss (FVTPL):**

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

## 1. Summary of Significant accounting policies(continued)

### d) Financial instruments (continued)

- **Financial assets (Continued)**

Notwithstanding the above, the fund may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income

- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the fund determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The fund reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the fund has not identified a change in its business models.

**Derecognition/write off**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the fund has transferred substantially all risks and rewards of ownership, or when the fund has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

**Impairment**

The fund recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit loss (ECL), i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

## 1. Summary of Significant accounting policies (Continued)

### d) Financial instruments (Continued)

#### - Financial assets (Continued)

#### Impairment (Continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 24.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the group under the contract and the cash flows that the group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount 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.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. All other financial liabilities are classified and measured at amortised cost.

**1. Significant accounting policies(continued)**

**d) Cash and cash equivalents**

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

**e) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted on transition of the financial reporting framework from International Financial Reporting Standard for Small and Medium-sized Entities to International Financial Reporting Standards.

| | | 2020 | 2019 |
|---|---|---|---|
| **2** | **Interest income** | **Kshs** | **Kshs** |
| | Financial Institutions | 50,898,242 | 27,092,073 |
| | Fund Investment | 11,097,227 | 6,469,353 |
| | Commercial Paper | 213,926 | 2,655,102 |
| | Government Bond | 29,692,890 | 6,282,774 |
| | | **91,902,284** | **42,499,302** |

| | | | |
|---|---|---|---|
| **3** | **Service fee and other expenses** | | |
| **3.1** | **Operating expenses** | | |
| | Interest Expense | 6,328,664 | - |
| | Fund Management Fees | 10,065,361 | 4,947,400 |
| | Advertising and Marketing | 2,438,001 | - |
| | Custody Fees | 1,574,317 | 1,089,210 |
| | Trustee Fees | 1,379,469 | 1,145,974 |
| | Bank charges | 949,681 | 511,244 |
| | Audit Fees | 409,931 | 522,000 |
| | Publication Fee | 300,000 | 366,328 |
| | Annual General Meeting Expenses | 150,000 | 250,000 |
| | Business Licenses | 37,522 | - |
| | Penalties and Fines | 2,377 | - |
| | | **23,635,323** | **8,832,156** |

| | | | |
|---|---|---|---|
| **3.2** | **IFRS 9 Impairment provisions** | | |
| | Fixed and Call Deposits | 3,681,194 | 3,681,194 |
| | Unlisted securities | 731,393 | 731,393 |
| | Unit trust | 553,224 | 553,224 |
| | Treasury bonds | 856,542 | 856,542 |
| | Bank Balances | 75,180 | 75,180 |
| | Trade and Other Receivables | 55,458 | 55,458 |
| | | **5,952,991** | **5,952,991** |

Fund Management fees are paid to Cytonn Asset Managers Limited for the professional management of the fund. They are charged at a rate of 1.5% inclusive of taxes per annum computed on the daily fund balances.

**4. Taxation**

***i)Tax status***

The unit trust is registered under the income tax act (collective investments scheme rules 2002), and is exempt from income tax.

***ii) Tax expense***

This relates to withholding tax deducted and dividend incomes earned by the fund at a rate of 15%of interest income and 5% of dividend income respectively.

| | | 2020 | 2019 |
|---|---|---|---|
| **5** | **Treasury Bonds** | **Kshs** | **Kshs** |
| | 364 Days Treasury bonds | 194,667,337 | 105,680,392 |
| | Accrued interest | 29,692,890 | 2,742,649 |
| | Less: IFRS 9 Impairment provision(Note 3.2) | (856,542) | (856,542) |
| | At end of year | **225,216,769** | **107,566,499** |
| | | | |
| | **Treasury Bond Maturity Analysis** | | |
| | Maturity within 365 days | 226,073,311 | 108,423,041 |
| | Less: IFRS 9 Impairment provision | (856,542) | (856,542) |
| | | **225,216,769** | **107,566,499** |

The weighted average effective interest rate on Treasury bonds at 31 December 2020 was 11.41%. (2019-10.41%).

In the opinion of the Trustee, the carrying amount of Treasury bond approximate to their fair value.

The Carrying amounts of Treasury bonds are denominated in Kenya Shillings

| | | 2020 | 2019 |
|---|---|---|---|
| **6** | **Unit trust** | **Kshs** | **Kshs** |
| | *Movement in unit trusts* | | |
| | At start of the year | 68,921,893 | - |
| | Additions during the year | - | 68,897,492 |
| | Accrued interest | 9,348,216 | 1,130,849 |
| | Less: IFRS 9 Impairment provisions (Note 3.2) | (553,224) | (553,224) |
| | At end of the year | **77,716,885** | **69,475,117** |
| | | | |
| | **Unit trusts by institution** | | |
| | Cytonn High Yield Fund | 77,716,885 | 69,475,117 |

The Fund has invested in the Cytonn High Yield Fund. Both funds have Cytonn Asset Managers Limited as their Fund Manager and administrator which has investments for other clients.

The investment can be liquidated at any time on a four days' notice at current market value.

| | 2020 | 2019 |
|---|---|---|
| | **Kshs** | **Kshs** |
| **7 Fixed Deposits** | | |
| Face Value | 194,380,421 | 341,259,437 |
| Accrued Interest | 50,898,242 | 11,358,259 |
| Less: IFRS 9 Impairment provisions(Note 3.2) | (3,665,194) | (3,665,194) |
| | **233,280,208** | **348,952,502** |
| **Fixed Deposits Maturity Analysis** | | |
| Maturity within 91 days | 116,852,140 | 83,680,156 |
| Maturity within 182 days | 83,226,077 | 138,130,237 |
| Maturity within 364 days | 36,867,184 | 130,807,304 |
| Less: IFRS 9 impairment provision(note 3.2) | (3,665,194) | (3,665,194) |
| | **233,280,208** | **348,952,502** |

The weighted average effective interest rate on fixed deposits at 31 December 2020 was 11.77% (2019: 11.77%).

In the opinion of the Trustee, the carrying amount of the fixed deposits approximate to their fair value. The carrying amounts of the fund's fixed deposits are denominated in Kenya shillings.

| | 2020 | 2019 |
|---|---|---|
| | **Kshs** | **Kshs** |
| **8 Call Deposits** | | |
| Face Value | - | 1,600,000 |
| Accrued Interest | - | 54,772 |
| Less: IFRS 9 Impairment provisions(Note 3.2) | - | (16,000) |
| | - | 1,638,772 |

The weighted average effective interest rate on call deposits at 31 December 2020 was 8.88% (2019: 8.88%).

In the opinion of the Trustee, the carrying amount of the call deposits approximate to their fair value. The carrying amounts of the fund's call deposits are denominated in Kenya shillings.

| | | 2020 | 2019 |
|---|---|---|---|
| **9** | **Unlisted securities** | **Kshs** | **Kshs** |
| | ***Unlisted securities by insitutions*** | | - |
| | Cytonn High Yield Solutions LLP | 62,803,900 | 54,072,556 |
| | Accrued interest | 7,551,767 | 6,373,159 |
| | Less: IFRS 9 Impairment provision(Note 3.2) | (731,393) | (731,393) |
| | | 69,624,274 | 59,714,322 |
| | ***Unlisted securities maturity analysis*** | | |
| | Maturity within 90 days | - | 16,129,856 |
| | Maturity within 180 days | - | 12,581,158 |
| | Maturity within 364 days | 70,355,667 | 31,734,701 |
| | Less: IFRS 9 Impairment provision (Note 3.2) | (731,393) | (731,393) |
| | | 69,624,274 | 59,714,322 |

The Fund has invested in the Cytonn High Yield Solutions which is a private offer issued by Cytonn Investments Management PLC, who serves as the Principal Partner and the Fund Manager for the offer.

The weighted average effective interest rate on commercial papers as at 31st December 2020 was 18.53% (2019: 14.95%).

In the opinion of the Trustee, the carrying amount of the commercial papers approximate to their fair value.

The carrying amounts of the commercial papers are denominated in Kenya shillings

| | | 2020 | 2019 |
|---|---|---|---|
| **10** | **Cash and Cash equivalents** | | |
| | *Cash held with:* | **Kshs** | **Kshs** |
| | KCB Custody | 966,015 | 4,089,175 |
| | SCB Custody | - | 2,723,148 |
| | M-Pesa | 16,553,634 | 2,704,115 |
| | | 17,519,649 | 9,516,438 |
| | Less: IFRS 9 Impairment provision (Note 3.2) | (75,180) | (75,180) |
| | | **17,444,469** | **9,441,258** |

## 10 Cash and Cash equivalents

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise of the following:

| | 2020 | 2019 |
|---|---|---|
| | **Kshs** | **Kshs** |
| Cash at bank and in hand | 17,444,469 | 9,441,258 |
| Call and Fixed Deposits | 233,280,208 | 350,591,274 |
| | **250,724,677** | **360,032,532** |

| | 2020 | 2019 |
|---|---|---|
| **11 Trade and other receivables** | **Kshs** | **Kshs** |
| Accrued investment income | - | 5,094,009 |
| Other receivables | 4,488,793 | 1,357,701 |
| Withholding tax receivable | 1,780,365 | 568,322 |
| | 6,269,158 | 7,020,032 |
| Less: IFRS 9 impairment provision(Note 3.2) | (55,458) | (55,458) |
| | 6,213,700 | 6,964,574 |

The fund's credit risk arises primarily from other receivables which relates to accrued interest as at year end. The Trustee is of the opinion that the fund's exposure is limited because the debt is widely held.

The carrying amounts of the fund's trade and other receivables are denominated in Kenya shillings.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The fund does not hold any collateral as security.

| | 2020 | 2019 |
|---|---|---|
| **12 Trade and Other Payables** | **Kshs** | **Kshs** |
| Withholding Tax Payable | 6,662,854 | 2,947,602 |
| Due to Related parties | 164,147 | 5,679,357 |
| Accrued Custody Fees | 229,737 | 270,992 |
| Accrued Trustee Fees | 521,209 | 879,474 |
| Accrued Publication Fees | 410,664 | 110,664 |
| Accrued Audit Fees | 400,000 | 522,000 |
| Accrued AGM cost | 137,297 | 43,830 |
| | **8,525,908** | **10,453,919** |

The carrying amounts of the fund's trade and other payables are denominated Kenya shillings.

The payables are due within three months after the reporting period.

| | 2020 | 2019 |
|---|---|---|
| **13 Related party balances and transactions** | **Kshs** | **Kshs** |

The following transactions were carried out with related parties;

**i) Transactions**

| | | |
|---|---|---|
| Fund management fees paid to related party | 10,065,361 | 4,947,400 |

**ii) Outstanding balances**

Cytonn Asset Managers Limited is the Fund Manager and Administrator involved in the professional management of Cytonn Money Market Fund. Cytonn Asset Managers Limited is a related party to Cytonn Investments Management PLC by virtue of common shareholding which owns a number of other subsidiaries which are fellow subsidiaries to Cytonn Asset Managers Limited. The Fund transacts with these companies within the Cytonn Group companies.

**Payable to related parties (Note 12)**

| | | |
|---|---|---|
| Cytonn Asset Managers Limited | 756,891 | 5,679,357 |
| Due from other related parties | 592,744 | |
| | **164,147** | **5,679,357** |

**iii) Related party dues under Unitholders**

Outstanding balances from Cytonn Money Market Fund to Cytonn Balanced Fund are dues for unitholders movement;

| | | |
|---|---|---|
| Cytonn Balanced Fund | 472,804 | |

**iv) Investments held with related parties**

| | | |
|---|---|---|
| Cytonn High Yield Solutions LLP | 69,624,274 | 59,714,322 |
| Cytonn High Yield Fund | 77,716,885 | 69,475,117 |
| | **147,341,159** | **129,189,439** |

## 14. Risk management objectives and policies

**Financial risk management**
The Fund generates revenues for unit holders by investing in various income generating activities. These activities expose the Fund to a variety of financial risks, including credit risk, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The funds 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 Fund Manager, Cytonn Asset Management Limited. The Fund Manager identifies, evaluates and manages financial risks, with emphasis on specific areas such as interest rate risk, credit risk and investing excess liquidity.

The Fund's risk management policies include the use of guidelines governing the acceptance of clients and investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk.

The trust deed sets out the investment policy and management of the Fund's assets to minimise potential adverse effects on its financial performance.

### a) Market risk

*Price risk*
The fund is exposed to equity securities price risk because of the investment in quoted shares. To manage its price risk arising from investment in equity, the fund diversifies its portfolio in accordance with the limits sent by the fund.

*Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest bearing assets include term deposits, commercial paper and treasury bills which have fixed interest rates hence exposure to interest rate risk is not considered to be material.

### b) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The credit risk on term deposits and bank balances is limited as the counterparties are all recognised banks with good reputations.

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.

## 14. Risk management objectives and policies (Continued)

### Financial risk management (Continued)

### b) Credit Risk (Continued)

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.

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 recognised on a collective basis.

For such purposes, the company's financial assets on the basis of shared credit risk characteristics, such as

- Type of instrument;
- Industry in which the debtor operates; and
- Nature of collateral.

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

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

## 14. Risk management objectives and policies (Continued)

### Financial risk management (Continued)

### b) Credit Risk (Continued)

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date is as follows:

| | 12 Month Expected Credit Losses | | |
|---|---|---|---|
| **Year ended 31 December 2020** | **Gross** | **Expected** | **Exposure** |
| | **Kshs** | **Kshs** | **Kshs** |
| Fixed Deposits | 236,961,401 | (3,681,194) | 233,280,208 |
| Unlisted Securities | 70,355,668 | (731,393) | 69,624,274 |
| Unit Trust | 78,270,109 | (553,224) | 77,716,885 |
| Government Bonds | 226,073,311 | (856,542) | 225,216,769 |
| Bank Balances | 17,519,649 | (75,180) | 17,444,469 |
| Trade and Other Receivables | 6,269,157 | (55,458) | 6,213,700 |
| | 635,449,295 | (5,952,991) | 629,496,304 |
| **Year ended 31 December 2019** | | | |
| Fixed Deposits | 352,617,696 | (3,665,194) | 348,952,502 |
| Call Deposits | 1,654,772 | (16,000) | 1,638,772 |
| Unlisted Securities | 60,445,715 | (731,393) | 59,714,322 |
| Unit Trust | 70,028,341 | (553,224) | 69,475,117 |
| Treasury Bonds | 108,423,041 | (856,542) | 107,566,499 |
| Bank Balances | - | (75,180) | (75,180) |
| Trade and Other Receivables | 12,114,042 | (55,458) | 12,058,584 |
| | 605,283,607 | (5,952,991) | 599,330,616 |

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;

b) financial assets that are credit impaired at the balance sheet date;

c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

## 14. Risk management objectives and policies (continued)

### Financial risk management (continued)

### b) Credit Risk (continued)

| 2020 | At start of the year<br>Kshs | Changes relating to assets<br>Kshs | Exposure to credit risk<br>Kshs |
|---|---|---|---|
| Fixed Deposits | 3,665,194 | 236,961,401 | 233,280,208 |
| Call Deposits | 16,000 | - | - |
| Unlisted Securities | 731,393 | 70,355,668 | 69,624,274 |
| Unit Trust | 553,224 | 78,270,109 | 77,716,885 |
| Government Bonds | 856,542 | 226,073,311 | 225,216,769 |
| Bank Balances | 75,180 | 17,519,649 | 17,444,469 |
| Trade and Other Receivables | 55,458 | 6,269,157 | 6,213,700 |
| | 5,952,991 | 635,449,295 | 629,496,304 |

## 15. Events after the reporting period
No new event has been reported.

## 16. Registration
The Fund is registered in Kenya under the Capital Markets Authority (CMA) Act.

## 17. Presentation currency
The financial statements are presented in Kenya Shillings (Kshs).