THROUGH AND BEYOND
THE PANDEMIC

ILAM

FAHARI I-REIT

ILAM FAHARI I-REIT
(FORMERLY STANLIB FAHARI I-REIT)

ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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OUR CORPORATE INFORMATION

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Appointed 18th May 2020

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OUR CORPORATE INFORMATION

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THE CHAIRMAN'S STATEMENT

> *On behalf of the REIT Manager's Board of Directors, it gives me great pleasure to present the ILAM Fahari I-REIT's annual report for the year ended 31 December 2020.*

Highlights

Kenya's general economic climate was depressed during 2020 due to the Covid-19 pandemic as well as the locust attack. GDP is estimated to have contracted by 1% compared to a growth of 5.9% in 2019. Elevated debt continued to be a threat to the economy's stability. At 5.6% inflation remained below the Central Bank's upper target band of 7.5% supported by favourable weather conditions. The Kenya Shilling weakened against most major currencies such as the Sterling Pound, US Dollar, Euro and the Japanese Yen.

The real estate market was hard hit by the pandemic with most tenants especially in the retail sector requesting for rebates. According to Knight Frank, rentals remained weak due to the challenging economic climate attributable largely to restrictions on mobility and trading. In response, landlords adopted a range of lease concessions in a bid to retain and attract tenants. The rebate levels varied according to the scale of the impact that lockdown periods had on respective businesses.

For ILAM Fahari I-REIT, the year was particularly challenging owing to the financial difficulties experienced by the anchor tenant at Greenspan Mall amid the Covid-19 pandemic. This affected the performance of other tenants as a result of reduced foot traffic. We expect that 2021 will be a better year after the replacement of the anchor tenant at the mall.

On the financial out-turn, net profit for the year declined by 16% to KShs 148.0 million compared to KShs 175.2 million in the comparative period. The decrease was mainly attributable to a reduction in fair value gains on revaluation of investment properties compared to prior year. This must be viewed against the backdrop of the Covid-19 pandemic whose impact is a material valuation uncertainty in the short to medium term. Similarly, the distributable earnings declined by 7% to KShs 134.4 million (2019: KShs 144.0 million). The decline was mainly due to higher property expenses arising from a significant provision for bad debts as a result of non-performance of the anchor tenant at Greenspan Mall. This was partially offset by lower fund operating expenses as a result of the REIT Manager granting a temporary reduction in their fees by 10% for the benefit of the investors. In light of the challenges experienced, the Board recommended, and the REIT Trustee approved, a distribution slightly lower than the prior year. A first and final distribution of KShs 0.60 per unit will thus be paid by no later than 30 April 2021. This amounts to a payout ratio of 81%.

Change of REIT Manager

On 20 May 2020, STANLIB Kenya Limited ("SKL") together with The Co-operative Bank of Kenya Limited ("Co-op Bank") and ICEA LION Asset Management ("ILAM") in their respective capacities as the outgoing REIT Manager, REIT Trustee and the incoming REIT Manager announced that all the conditions precedent in relation to the transfer of the management of the REIT (including the approvals of the Capital Markets Authority and the Competition Authority of Kenya) have been fulfilled, with the result that such transfer became effective on 18 May 2020 (the Effective Date) and has been implemented. ILAM is accordingly now the Manager and Promoter of the REIT.

Having assumed the role of REIT Manager we have embarked upon a strategic review aimed at addressing the performance challenges being faced and developing growth opportunities designed to deliver sustainable competitive returns to the investors into the future.

Appreciation

On behalf of the Board, I would like to thank the REIT Trustee for all the support afforded to us since we became the REIT Manager during the year as well as the strong role they have played in safeguarding the interests of the REIT securities holders. I also express gratitude to the CMA for the strong support afforded us as we navigated through the regulatory challenges that come with new investment vehicles in the market.

The successful establishment of the first listed income REIT in Kenya and the whole of East Africa would not have been possible without the support and continued interest shown by both retail and institutional unitholders at inception and throughout the existence of what is now the ILAM Fahari I-REIT; for that we are grateful to the unitholders. We are equally appreciative of the groundbreaking role played by our predecessors, STANLIB Kenya Limited, as the original Promoter and Manager of the REIT. Last, but not least, I would like to thank the non-executive directors for their guidance and contribution, as well as the management team for their diligence in managing the REIT's operations in what was not only a period of transition but also one of unprecedented business disruption.

ANDREW NDEGWA | CHAIRMAN, ICEA LION Asset Management Limited

Date: 18 March 2021

REIT MANAGER'S BOARD OF DIRECTORS

The following directors served under STANLIB Kenya Limited who resigned as the REIT Manager on 18 May 2020.

SURINDER KAPILA | Chairman

Appointment date: 30 May 2018
Resignation date: 18 May 2020

Ms Kapila is an Advocate of the High Court of Kenya and a business law expert with deep knowledge of trade and regional integration having among others, helped establish the Common Market for East and Southern Africa (COMESA) Court of Justice and provided technical support to USAID regional trade team to encourage free movement of goods and trade between member states. She also has over 31 years' experience in governance for banks, bilateral and multilateral donor agencies, research institutes as well as businesses at large.

In her career, Ms Kapila has held several roles including but not limited to Assistant Legal Officer for KCB Bank Limited, Legal Advisor and Company Secretary for CBA Bank Limited, Legal Consultant for World Bank – Agriculture Division, Legal Consultant for USAID Regional Legal Office and Legal Consultant for International Centre for Research in Agroforestry (ICRAF). Currently, she is a Development Consultant.

She is a current board member of International Federation of Women Lawyers (FIDA) (also former president), FIDA Kenya (also co-founder), Capital Club East Africa, and the Beth Mugo Cancer Foundation. She is a past board member of Ecobank Kenya Limited, the East African Building Society Bank, and Hillcrest International Schools.

Ms Kapila holds a B.A. (Hon) Economics and Political Science degree, a Diploma in Journalism as well as an LL.B. Public and Private International Law degree all from the University of Mumbai, India. She also holds an Executive MBA, International Business Development, and Leadership from Inoorero University, Kenya/CBS-SIMI Executive, Denmark. She is also a Chartered Meditator and Conciliator duly commissioned by the Kenya Institute of Chartered Mediators and Conciliators and the Mediation Training Institute East Africa.

NKOREGAMBA MWEBESA | Managing Director, STANLIB Kenya Limited

Appointment date: 8 December 2016
Resignation date: 31 January 2020

Mr Mwebesa has more than 30 years of experience in the East Africa Financial Services Sector. His expertise spans Investment Management, Capital Markets and Securities, and Investment Banking. Mr Mwebesa is the immediate past Chief Executive of SBG Securities (SBGS), a licensed Investment Bank in Kenya, Uganda and Rwanda and a member of the Standard Bank Group. Prior to joining SBGS, Mr Mwebesa had a successful tenure as the Chief Executive Officer of the Nairobi Securities Exchange Limited (NSE), the largest securities exchange in the East African Region.

Mr Mwebesa was appointed Managing Director of STANLIB Kenya Limited on 8th December 2016, however this was his second stint at the helm of this business. Mr Mwebesa served as the founding Executive Director of STANLIB Kenya's predecessor, Stanbic Investment Management Services (SIMS) from 1999 to 2004.

Mr Mwebesa holds an Upper Second Class Honours B.A. Degree in Economics and Philosophy from the University of Nairobi and an Executive MBA from the Maastricht School of Management.

MIKE DU TOIT | Non-executive Director

Appointment date: 22 February 2006
Resignation date: 18 May 2020

Mr du Toit joined Liberty in 2010. He is the Managing Director of NSE-listed Liberty Kenya Holdings Plc and Liberty Group's Regional Group Executive for East and Central Africa responsible primarily for strategic growth initiatives, governance and stakeholder engagement. Prior to this he was Managing Director of Stanbic Bank in Kenya (previously CfC Stanbic) having led the merger of the Stanbic and CfC Groups. As a career banker, he has extensive experience in the financial services sector across sub-Sahara Africa having worked and lived in, amongst others Botswana, Mozambique, South Africa and Uganda. He is a member of all the Boards of all Liberty entities in the region. Mr du Toit holds a LIB of the Institute of Bankers (SA).

PATRICK MAMATHUBA | Non-executive Director

Appointment date: 23 March 2016
Resignation date: 18 May 2020

Mr Mamathuba is Head of Alternative Investments and Portfolio Manager at STANLIB Limited. Mr Mamathuba has 25 years experience in the investment industry. He joined STANLIB Limited in 1999 and has held various positions including Bond Trader, Portfolio Manager and Chief Investment Officer. In his current role he has been involved in establishing and growing new ventures within STANLIB Limited including the passive funds offering, establishment of infrastructure capability and seeking private equity partner for the group.

Mr Mamathuba has held the position of Chairman of the Direct Property and High Yield debt propositions investment committees. In addition, he has chaired the STANLIB Credit Partners board and is a Director of the Infrastructure Private Equity Fund 1 General Partner. He is a member of the STANLIB Executive Committee. In his previous roles he was involved in analysing JSE listed companies and managing client portfolios exceeding ZAR40 billion. He has also overseen client allocations to third party private equity funds. Prior to joining STANLIB, he worked at Transnet treasury and the South African Reserve Bank. Mr Mamathuba holds a B.Com (UCT) degree, B.Com Honours (UNISA) and is a CFA charter holder.

JOHN STURGEON | Non-executive Director

Appointment date: 30 May 2018
Resignation date: 18 May 2020

Mr Sturgeon is currently a Consultant to Liberty Holdings Limited in South Africa, responsible for the Liberty Property Portfolio, Chairman of the Pension and Provident Funds as well as oversight of certain of Liberty's non-South African subsidiaries. Prior to this he was the Group Executive – Corporate Finance and Capital Management for the Liberty Group (2004 – 2017). Prior to this, he was a Consultant to the Standard Bank Equity Fund division on Management Buyouts and Private Equity Investments (2000 – 2004).

He began his career as an articled clerk with Peat Marwick Mitchell and grew his financial experience through various positions from Financial and Cost Accountant to Financial Controller for companies within the Dorbyl Group, then becoming Group Financial Manager for Calan Limited. From May 1982, Mr Sturgeon became the Group Financial Director/Company Secretary for Natyre Limited/Calan Group. Since then, he has held various Financial Director positions including for Argus Holdings Limited (1993 – 1994) and the Premier Group Limited (1994 – 1999). Mr Sturgeon holds a Post-Graduate Certificate in the Theory of Accounting (CTA) from the University of Witwatersrand. He also holds a CMA and HDip Tax also from the University of Witwatersrand. He is a registered Chartered Accountant with the South African Institute of Chartered Accountants.

REIT MANAGER'S BOARD OF DIRECTORS CONTINUED

The following are current directors under ICEA LION Asset Management Limited who were appointed as the REIT Manager on 18 May 2020.

ANDREW NDEGWA | Chairman

Appointment date: 18 May 2020

Andrew is the Executive Director of First Chartered Securities, a private investment holding company with interests in financial services, logistics, real estate, manufacturing and agriculture. He holds a Bachelor of Arts (Hons) degree in Philosophy, Politics and Economics from Oxford University.

Andrew began his career in the banking industry, and between 1990 and 1994 worked at Mercantile Finance Company, its affiliate The African Mercantile Banking Company and at Citibank Nairobi. He joined First Chartered Securities in 1994 as the Group Planning Manager and in 2000 was appointed to the Board as Executive Director. He is also a Non-Executive Director of several other companies, including NCBA Group Plc and Unga Group Plc, both of which are quoted on the Nairobi Securities Exchange.

Andrew is a trustee of Faraja Cancer Support Trust.

EINSTEIN KIHANDA | Director & CEO - ICEA LION Asset Management Limited

Appointment date: 18 May 2020

Einstein holds a Bachelor of Science Degree in Business Administration (Accounting & Finance Major) from the United States International University (USIU) and a Master of Science degree in Management and Organisational Development from the same university. Einstein also holds a Master of Science degree in Finance from the University of Strathclyde in Scotland, U.K.

Einstein's experience in investment analysis, research and fund management spans over 21 years, having joined Equity Stockbrokers as a Research Analyst in February 1999 followed by a brief stint as Research Manager at Barclaytrust Investment Services shortly before its acquisition by Old Mutual. Einstein started his career in fund management in January 2002 when he joined ICEA Investment Services as Head of Portfolio Management Services and thereafter Old Mutual Asset Managers, CFC Stanbic Financial Services, Sanlam Investment Management Kenya and back to ICEA LION Asset Management Limited as Chief Investment Officer prior to being promoted to CEO in December 2015. Einstein also serves as a Director of ICEA Asset Management (Uganda).

He has steered his organization to win 28 Think Business Investment Awards (2014 to 2016) and runner-up awards (2017 and 2018) at the Institute of Certified Secretaries (ICS) Kenya's Champions of Governance Awards for the Investment Sector. Einstein is the Vice Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA) and is the immediate past Chairman of the Fund Managers Association (FMA) where the chairs the Stakeholders Committee.

PATRICK MUGAMBI | Alternate Director

Appointment date: 18 May 2020

Patrick is the Planning & Projects Director of First Chartered Securities Ltd, a private investment holding company with interests in financial services, logistics, real estate, manufacturing and agriculture.

Patrick holds a BSC in Business Administration from USIU and is a Certified Public Accountant and alumnae of IESE Business School. He is also a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a Member of the Overseas Technical Scholarship (AOTS) Japan.

He previously worked for PricewaterhouseCoopers and Shell Exploration and Production Kenya BV between 1988 and 1992. Prior to his present position, he was the Executive Director and Chief Operating Officer of Mitchell Cotts Kenya Group until January 2006.

Patrick is also a Non–Executive Director of Mitchell Cotts Group Limited and a director of several other companies.

STEPHEN MALLOWAH | Non-executive Director

Appointment date: 18 May 2020

Stephen Mallowah is a Commercial and Corporate Law partner with the prominent regional law firm TripleOKLaw LLP, based in Nairobi and undertaking projects across the region. He is also an Advocate of the High Court of Kenya.

He holds a Bachelor of Laws (Hons) degree from the University of Zambia and a Master of Laws Degree in Corporate and Commercial Law as a Chevening Scholar from the University of London. He holds a further Master of Science Degree in Oriental & African Studies from the same university and an Advanced Management Program from the IESE Business School. Stephen holds a Postgraduate Diploma from the Kenya School of Law.

Stephen has demonstrated his true mettle in several specialized areas of law. Examples include: Capital Markets and Financial Services – advising a large commercial bank on setting up a Unit Trust; Structured and Project Finance and Energy – advising a developer on delivering a 140MW geothermal power generation project; Mining, Oil and Gas – advising large multinationals in the extractives sector on legislative engagement on the Mining Act and Petroleum Act; Public Policy and Regulatory Compliance – advising a large telco on regulatory and compliance issues around the rollout of a suite of advanced digital service offerings .

He has taught law at the Kenyatta University, Catholic University of East Africa, the Kenya School of Law and the Kenya School of Monetary Studies among others. He is also a certified Corporate Governance Trainer with the Centre for Corporate Governance.

KAIRO THUO | Non-Executive Director

Appointment date: 18 May 2020

Kairo is a consultant and a founder partner of Viva Africa Consulting LLP and Viva Africa Consulting Limited. He is both a lawyer and accountant by profession. He attended Strathmore and the University of Nairobi where he graduated with LLB (Hons) and is a CPA-K and CPA-T holder. He was previously responsible for establishing and running the Tax Transaction Advisory Group at Deloitte and Touche as the Director of the unit, was responsible for mergers, acquisitions, transaction arrangements, wealth structuring and funds management as well as corporate and legal structuring. Kairo has extensive experience in all areas of taxation in

Kenya, Uganda, Rwanda and Tanzania and other countries in Africa. His experience involved all areas of legal, finance and taxation and was also involved in establishment of specialised tax service lines in direct and indirect taxation including customs, international tax and transfer pricing. Amongst many of his key achievements, Kairo remains the only individual to-date to be recognised by KRA in the annual taxpayers' awards for contribution towards tax education in Kenya having also been recognised by the IFC for outstanding tax advice contribution in the Kenya and Uganda Railways concession process. He also contributed to capacity enhancement for the East Africa Law Society and the Institute of Certified Public Secretaries of Kenya.
He also serves on the Boards of Kenya Power, Special Economic Zones Authority and, NCBA Bank Plc.

STEVEN OLUOCH | Non-executive Director

Appointment date: 18 May 2020
Retirement date: 1 October 2020

Steven was the Chief Executive Officer of ICEA LION General Insurance Company Limited. Steven holds a Bachelor of Commerce from the University of Nairobi and a Global Executive Master's Degree in Business Administration from USIU in collaboration with Columbia University, New York. Professionally, he is an Associate of the Chartered Insurance Institute of London and is a Chartered Insurer.

Steven's vast experience in the insurance sector spans 36 years, having worked at three reinsurance companies: Kenya Reinsurance Company where he commenced his career as a management trainee in 1983; PTA Reinsurance Company (ZEP-RE); and Tanzania National Reinsurance Corporation Ltd (TANRE). Steven rose through various ranks to the position of Managing Director & Chief Executive Officer of TAN-RE in Dar es Salaam, Tanzania between 2007 and 2010, before returning to Kenya to join the ICEA LION Group.

As a result of serving on numerous boards and their various committees, he has in addition to his previous long reinsurance practice and management experience, gained invaluable learning and hands on experience in the management of non-life insurance operations, life assurance company operations, asset and fund management as well as investment operations in Kenya, Uganda and Tanzania.

JUSTUS MUTIGA | Non-executive Director

Appointment date: 18 May 2020
Retirement date: 31 December 2020

Justus is a graduate of University of Nairobi, City University of London, Fellow Chartered Insurance Institute (FCII) – London, Fellow Insurance Institute of Kenya (FIIK) and is a Chartered Insurer.

Justus' has been involved in the financial services industry for over 35 years; his outstanding knowledge has greatly enriched ICEA LION. He has received a plethora of awards for his leadership including Life Assurer of the Year for the 6 consecutive years (2013 to 2018) and Deloitte's Best Company To Work For Award for the insurance sector for the three years (2014 to 2016). He was also awarded first runner-up for CEO of the Year for the Champions of Governance Awards ahead of over 800 CEOs and in 2015 and won the Overall CEO of the Year Award in the same category in 2017. He was also bestowed the Lifetime Achievement Award in recognition of his contribution to the industry in East Africa at the Think Business Insurance Awards in 2016.

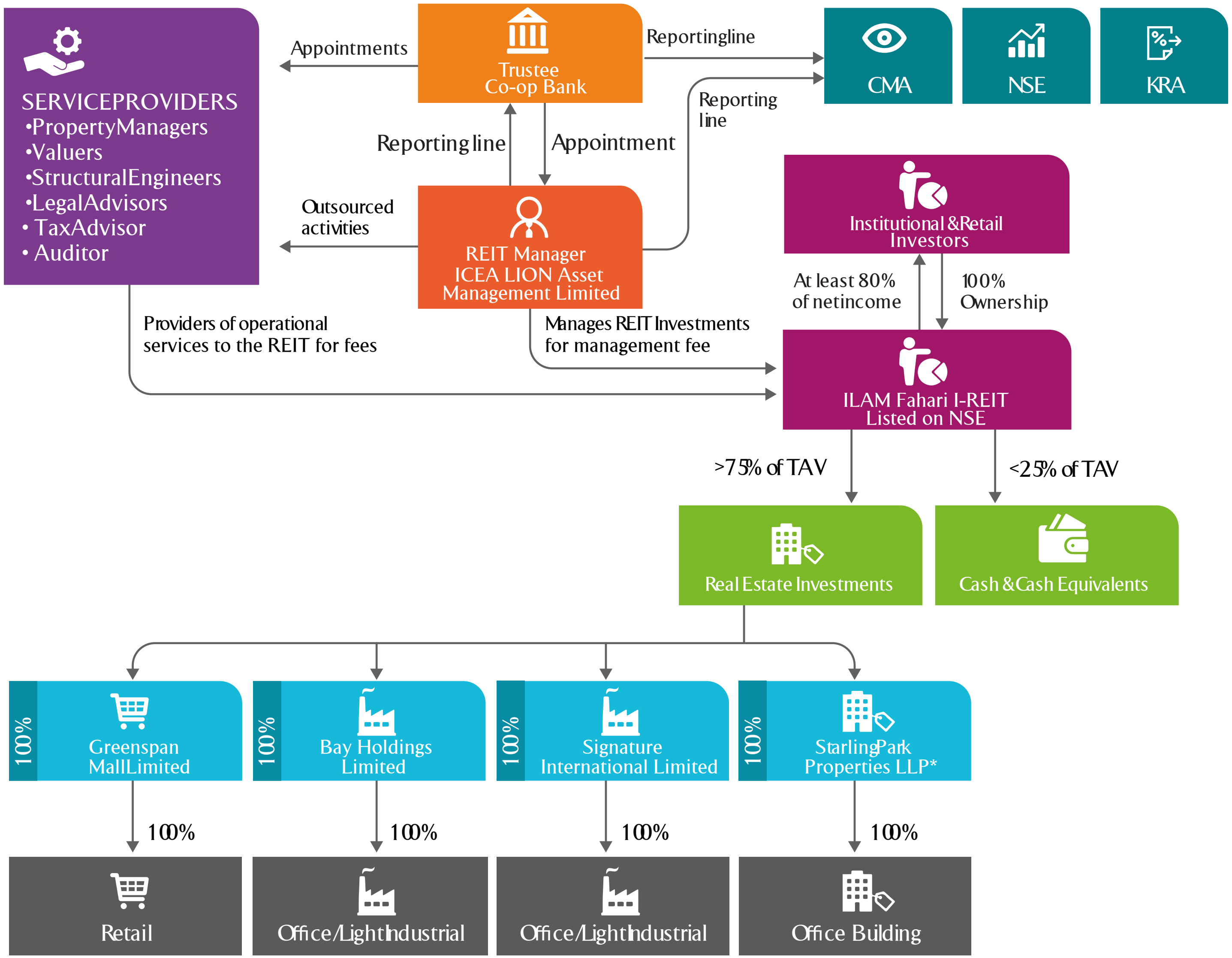
A respected professional within the insurance circles, Justus is a mixture of the best of both worlds –academia and business, specifically the insurance industry. Specialising in life insurance and pension, Justus enjoys providing unparalleled professional service, working with clients to help them achieve their financial goals. He has contributed immensely to the development of the life insurance industry. A prolific mentor and tutor, Justus is regarded by the industry as a true innovator. Most of the life and pensions products sold in Kenya today have Justus' fingerprints. A great number of professionals within the life insurance industry can credit their growth and success to Justus' able tutelage. He has served as Chairman of the Association of Kenya Insurers (AKI) and in various capacities at AKI, Insurance Institute of Kenya and Association of Retirement Benefit Schemes. He has been a member of Kenya

National Insurance Examinations Board, a curriculum developer at the College of Insurance and Vice Chairman of Dedan Kimathi University. He is currently a Director at ICEA LION Asset Management Limited and a Director of four SMEs.

Justus has written numerous publications and papers on the industry. He is a regular and noted speaker at regional insurance and financial services conventions.

One of Justus' crowning glories is ICEA LION Group's headquarters at the state-of-the-art ICEA LION Centre at Riverside Park in Westlands. He took great pride in delivering a modern facility for the ICEA LION Group family and customers to enjoy.

THE REIT STRUCTURE



* Greenspan Mall Limited holds 1% of the partnership interest in Starling Park Properties LLP in trust on behalf of ILAM Fahari I-REIT. No economic benefit flows to Greenspan Mall Limited as a result of this arrangement.

REIT MANAGEMENT TEAM

EINSTEIN KIHANDA | Chief Executive Officer: ICEA LION Asset Management Limited and ILAM Fahari I-REIT

Einstein holds a Bachelor of Science Degree in Business Administration (Accounting & Finance Major) from the United States International University (USIU) and a Master of Science degree in Management and Organisational Development from the same university. Einstein also holds a Master of Science degree in Finance from the University of Strathclyde in Scotland, U.K.

Einstein's experience in investment analysis, research and fund management spans over 21 years, having joined Equity Stockbrokers as a Research Analyst in February 1999 followed by a brief stint as Research Manager at Barclaytrust Investment Services shortly before its acquisition by Old Mutual. Einstein started his career in fund management in January 2002 when he joined ICEA Investment Services as Head of Portfolio Management Services and thereafter Old Mutual Asset Managers, CFC Stanbic Financial Services, Sanlam Investment Management Kenya and back to ICEA LION Asset Management Limited as Chief Investment Officer prior to being promoted to CEO in December 2015. Einstein also serves as a Director of ICEA Asset Management (Uganda).

He has steered his organization to win 28 Think Business Investment Awards (2014 to 2016) and runner-up awards (2017 and 2018) at the Institute of Certified Secretaries (ICS) Kenya's Champions of Governance Awards for the Investment Sector. Einstein is the Vice Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA) and is the immediate past Chairman of the Fund Managers Association (FMA) where the chairs the Stakeholders Committee.

ELIZABETH IRUNGU | General Manager, Business Development & Client Relations: ICEA LION Asset Management Limited

Elizabeth is a Chartered Financial Analyst CFA, and is an active member of CFA East Africa Society and the CFA Institute USA. She is also a member of the Institute of Certified Investment and Financial Analysts- Kenya (ICIFA). She started her career as an Economist in the Office of the President between 2005- 2007, before joining ICEA LION Asset Management as an Investment Dealer. She later moved to African Alliance to become a Fixed Income Analyst until 2009. She then joined STANLIB Kenya as a Portfolio Manager and rose to the role of a Senior Investment Manager handling clients' portfolios. After that, she joined Britam Asset Managers as a Senior Portfolio Manager for a short stint before being promoted to the Chief Investments Officer position, a role she held until 2017 when she joined ICEA LION Asset Management. Elizabeth's experience spans across both Private and Public Sectors with diverse experience in the financial industry spanning research, portfolio management, credit analysis, economic analysis and stock broking.

BARACK OBATSA | Chief Investment Officer: ICEA LION Asset Management Limited

Barack holds a Bachelor of Science Degree in Financial Services from the University of Manchester Institute of Science & Technology, Master of Science in Finance (Economic Policy) from the University of London and Master of Science Real Estate (Investment and Finance) from the University Reading. Barack is a Chartered Banker, a Certified Internal Auditor and a Chartered Financial Analyst (CFA) from the CFA Institute. He is also a member of the Institute of Certified Investments & Financial Analysts- Kenya and the CFA Institute.

Barack completed his Leadership Development program from Gordon Institute of Business Science, University of Pretoria in South Africa. Besides this, he has had opportunities to attend trainings across the world in the areas of financial modelling, equity valuation, investment strategy, portfolio management, infrastructure financing and public private partnerships among others. Barack has in the past lectured at Strathmore University and is a "Certified Engagement and Productivity Coach -(CEPC)" having successfully completed an ICF –Accredited Program of 60 ACSTH at CDI-Africa Coaching.

Barack has over 15 years' experience in the investment industry, as an analyst, portfolio manager and Chief Investment Officer. Barack was the Regional Chief Investment officer for African Alliance before moving to ICEA Lion Asset management in the same position in 2016.

Barack has diverse and extensive experience in various asset classes from traditional financial investments- equities, fixed income to alternatives like private equity, infrastructure assets and real estate. In real estate, Barack's experience includes investment management of the extensive real estate portfolio of ICEA LION and third-party real estate assets for ILAM client's value at over KES 20 Billion. These include both commercial and residential properties.

His specific experience includes conducting investment appraisal, refurbishment, development appraisal, providing investment opinions on exit and acquisition of properties and development of property optimization strategies, including assisting in development of property business plan/strategies and interacting with property level managers to add value to real estate assets. He has also been involved in providing advice in of structuring of property investment vehicles within ILAM for third party clients. Barack also serves on the ICEA LION Property Committee and has also received extensive training in real estate from some of the leading authorities and academics in real estate investing.

Barack's current and previous experience includes oversight of the investment process across the region in the various asset classes, exposure to management of offshore funds and due diligence of offshore managers including funds of funds. Barack is widely travelled across the world including the key financial capital capitals of the world – London, New York, and in Africa, Johannesburg, where he closely interacted with the top minds in the world running various investment strategies. Barack has received considerable investment mentorship from one of the most highly rated investment professionals in Africa that has strengthened his understanding of risk and ethics in investing.

RUTH OKAL | Property Asset Manager: ILAM Fahari I-REIT

Ruth has 17 years industry experience and is responsible for optimizing ILAM Fahari I-REIT's real estate portfolio through market research, data analysis, revenue forecasting and industry reporting to inform business decisions. She holds an MA in Property Management and Valuation and a BA in Land Economics both from University of Nairobi, and has been instrumental in the originating, negotiating and closing many property transactions. Ruth is both a registered Valuer and Registered Estate Agent. She has completed CFA Level 1. Ruth joined STANLIB Kenya Limited in 2013 from Knight Frank Kenya Limited, where she gained experience within Commercial Agency, Property Management, Valuation, Market Research, Feasibility Studies and Development Advisory. She is a member of the Valuers Registration Board.

IRENE MALOBA | Finance Manager: ILAM Fahari I-REIT

Irene has over 8 years of experience in the financial sector. She is adept at budget forecasting, financial planning, financial reporting and analysis, treasury operations as well as banking. She is responsible for evaluating the company's performance, risk management and financial reporting. Prior to joining ILAM Fahari I-REIT, Irene worked as a Management Accountant at Centum Investment Company Plc, the largest investment firm in East Africa where she was responsible for financial reporting and analysis for the Holding Company as well as Two Rivers Development and its subsidiaries. Before joining Centum, Irene spent over three years at Equity Group Holdings Limited where she developed her career in Finance. She was in charge of the finance department of Equity Investment Bank at the time of exit. Irene holds a Master of Science in Finance from the University of Nairobi and a Bachelor's degree in Business Management (Finance and Banking) from Moi University. She is a Certified Public Accountant of Kenya and a member of ICPAK.

MUHWA CHAKAYA | Property Analyst: ILAM Fahari I-REIT

Muhwa has over two years' experience in the investment world and is responsible for property market research and financial analysis. He holds a Bachelor of Commerce degree in Finance from Strathmore University and has passed the third level of the Chartered Financial Analyst examination. He is a member of ICIFA and a Master of Commerce student at Strathmore University.

OLGA OMALLA | Risk and Compliance Manager: ILAM Fahari I-REIT

Olga has over ten years' experience in legal and compliance matters. As the Legal and Compliance Officer for ILAM, she is in charge of regulatory compliance, drafting and reviewing legal documents, ensuring compliance and adherence to client mandates as well as facilitating all legal correspondence for the company. She joined ILAM in 2009 and previously worked at a law firm in Kenya under the Commercial and Corporate Division.

Olga is qualified as an advocate of the High Court of Kenya and holds a Bachelor of Law degree from the University of Nairobi, a Post Graduate Diploma from the Kenya School of Law, a Post Graduate Certificate in Commercial and Corporate Law from the University of London, a Post Graduate Diploma in Financial Services Law from the University of London and a Masters in Law from the University of London in Financial Services Law. She is also a Certified Professional Mediator and a Certified Retirement Benefits Scheme Trustee under Kenyan Law.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

ICEA LION Asset Management, the duly licensed REIT Manager for the ILAM Fahari I-REIT has ingrained corporate governance as the pivotal framework, through which its strategic objectives are set, attained and its performance monitored. The Board of the REIT Manager has and continues to put in measures to ensure compliance with the key principles as set out in the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011, the Capital Markets (Licensing Requirements) (General) Regulations, 2002 and the Capital Markets (Code of Business) (Markets Intermediaries) Regulations, 2011 as well as the ethical standards prescribed in the Company's Code of Conduct. In any instances of non-compliance, the REIT Manager takes proactive measures to ensure that the same is remedied as soon as practically possible.

The REIT in its enviable position as the first income real estate investment trust to be listed on the Nairobi Securities Exchange, has and continues to actively participate in policy review forums as well as other industry forums aimed at bringing about key reforms, one of the notable contribution includes active participation on the issue of taxation of Kenyan REITs, this will go a long way in enabling the success of REITs as an investment product in this market.

The Board of the REIT Manager is committed to the principles of good governance and appreciates the importance of managing the affairs of the REIT with integrity and accountability to all stakeholders.

The Board of the REIT Manager is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the REIT are safeguarded. Further the Board has an obligation to maintain a reliable system of managing financial information, so that the REIT scheme objectives of providing unitholders with stable annual cash distributions, improving and maximizing unit value are met.

BOARD SIZE, COMPOSITION AND APPOINTMENTS

The Board comprises of seven members made up of a non-executive and independent Chairman, five non-executive directors and one executive managing director. The non-executive directors are required to demonstrate complete independence in character, judgment and action in fulfilling their duties. A member of the Board shall retire once they get to the age of 70 years.

SEPARATION OF POWERS AND DUTIES OF THE CHAIRMAN AND MANAGING DIRECTOR

The separation of functions between the Chairman (a non-executive director) and managing director (executive director) ensures independence of the Board and Management.

The Chairman's responsibilities include leading and governing the Board, setting its agenda and ensuring its effectiveness. The Managing Director's roles and responsibilities include the day-to-day management of the REIT Manager's business and overseeing the implementation of strategy and policies approved by the Board. The Chairman is required by the Board to ensure that the Managing Director is able to implement the REIT's objectives as agreed by the Board of the REIT Manager.

ROLE OF THE BOARD

The Board offers strategic guidance, leadership and control of the REIT Manager by defining its strategic intent, its objectives and values; reviews this strategic direction and adopts business plans proposed by Management. The Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics.

TRAINING AND PERFORMANCE EVALUATION

The Board of the REIT Manager is focused on continued improvements in its effectiveness and corporate governance performance. On-going training is provided to members of the Board to enable them to fulfil their duties. New members of the Board are provided with an induction programme, where required, to acquaint them with the business.

An evaluation is done from time to time to identify any training needs.

The Board reviews its own performance at least once a year to ensure it is operating at maximum effectiveness.

CORPORATE GOVERNANCE (Continued)

BOARD DIVERSITY

The Board of the REIT Manager has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the current Board of directors are asset management, strategy, business management, banking and finance, economics, marketing, project management, risk management, governance, legal and ethics among others. The directors' biographies appear on page 7 to 15 of this Annual Report.

AUDIT AND RISK COMMITTEE (ARC)

The Board of the REIT Manager has established the Audit and Risk Committee (constituted as a sub-committee of the Board). As at 31 December 2020, the Committee's composition constituted of three non-executive directors, the Chairman being an independent non-executive director. The Chairman is a non-executive Director.

The mandate and scope of responsibilities of the committee is aligned with the Capital Markets Authority's Code of Corporate Governance. The mandate of the Audit Committee inter alia includes:

- Internal control and risk management;
- Review of the external auditor's scope and monitor their performance;
- Monitoring compliance of the laws and regulations governing the REIT;
- Ensure that the other Board members are made aware of matters which may significantly impact the financial conditions or affairs of the REIT.

INVESTMENT COMMITTEE

The ILAM Fahari I-REIT Investment Committee ("IFIR-IC") is constituted by the Board of the REIT Manager and structured as its sub-committee. The reporting at the Board is by the IFIR-IC Chairman. The Committee is constituted of three directors; two non-independent and the Managing Director of the REIT Manager.

The mandate of the Committee inter alia includes:

- Review and approve the execution of the approved investment strategy from time to time.
- Set criteria and targets for investment, including asset mixes and/or allocations.
- Oversight over the strategic direction of the REIT; making decisions on purchasing, developing and selling of properties within the limits of this Mandate and the CMA REIT's Regulations

The Committee has an independent role with accountability to the Board, the REIT Trustee and unitholders. The Committee does not assume the functions of management, which remain the responsibility of the REIT management team and the executives of ICEA LION Asset Management Limited.

The Committee held four (4) meetings which were attended by all the Members in line with the Committee Mandate.

COMPANY SECRETARY

The Company Secretary is the chief legal and governance advisor to the Board and co-ordinates the Board work plan, meetings as well as manages communication between the organization and shareholders.

DIRECTORS UNITHOLDING

Directors can purchase or sell units of the REIT in the open market. In the financial year under review none of the directors held REIT units, in their individual capacity, of more than 1% of the REIT's total equity. The breakdown of the directors' personal unitholding in the REIT as at 31 December 2020 is as follows:

Name of Director	Number of units held
Patrick Mamathuba	257,000
Mike du Toit	91,900
Total	348,900

The two directors served under STANLIB Kenya Limited who resigned on 18 May 2020 as the REIT Manager and was replaced by ICEA LION Asset Management Limited on the same date.

CORPORATE GOVERNANCE (Continued)

BOARD MEMBERS' MEETINGS

There are four scheduled Board meetings per year. Ad-hoc meetings can be convened, as and when required, by the secretary, at the request of the Chairman.

Below is the attendance roster for the year under review.

Board Member	Classification	28th Apr 2020
Surinder Kapila*	Non- Executive Chairman	√
Mike du Toit*	Non- Executive Director	√
Patrick Mamathuba*	Non- Executive Director	√
John Sturgeon*	Non- Executive Director	√

*Served under the former REIT Manager who resigned on 18 May 2020.

Board Member	Classification	22nd Jun 2020	27th Jul 2020	15th Oct 2020	9th Nov 2020
Andrew Ndegwa	Non- Executive Chairman	√	√	√	√
Einstein Kihanda	Executive Director	√	√	√	√
Patrick Mugambi	Non- Executive Director	√	√	√	√
Stephen Mallowah	Non- Executive Director	√	√	√	√
Kairo Thuo	Non- Executive Director	√	√	√	√
Justus Mutiga	Non- Executive Director	√	√	√	√
Steven Oluoch**	Non- Executive Director	√	√	x	x

**Retired 1 October 2020

RISK MANAGEMENT

RISK MANAGEMENT

The REITs Regulations require the REIT Manager to report on identified risks likely to impact on the future performance of the REIT Scheme and its capacity to fulfil its objectives.

KEY RISKS

Industry specific risks

As is common in other investment classes, property goes through different performance cycles and trends affected by several factors including socio-economic and regulatory changes. Any changes in property industry dynamics may impact growth trends. However, experience in other markets suggests that I-REITs that invest in portfolios of high-quality investment properties provide sustained returns and operating performance even in a less favourable market environment of slower growth in rental incomes and property values for the industry as a whole.

Regulatory compliance

One of the key risks that emerged in the Kenyan property market in 2018 is the demolishing of property built on riparian land or road reserves leading to significant financial loss to affected property owners.

As a mitigating factor, the ILAM Fahari I-REIT performs thorough due diligence prior to any property acquisition including compliance with laws and regulations. In future, greater focus will be put on ensuring that properties purchased are not built on riparian land or road reserves.

Title

Weaknesses in land title and rental lease registration can adversely impact the operations of REIT Schemes. All I-REIT Schemes are dependent on the certainty of the title to the properties and enforceability of rental lease agreements. Uncertainty of title presents the risk of (i) delays in completion of the purchase of properties until titles and leases are regularized, and (ii) delays in enforcement of lease contractual arrangements both of which could have adverse impacts on the business, financial condition and results of operations of I-REITs. As a mitigating factor, the ILAM Fahari I-REIT's policy is to conduct a thorough due diligence on properties to be purchased and to require the current owners to regularize titles and leases before the purchases are completed.

Terrorism

The terrorist attack on the Dusit D2 Hotel in Riverside, Nairobi in January 2019 was another reminder of the vulnerability of physical property to destruction which could lead to business disruption and to financial loss.

As a mitigating factor, the ILAM Fahari I-REIT ensures that adequate insurance cover is in place to safeguard against physical damage to property and loss of revenue as a result of any resultant business interruption. In addition, security upgrades and procedures are being undertaken in the Vulnerable properties in the portfolio to minimise the risk of malicious attacks.

RISKS MANAGEMENT (Continued)
KEY RISKS (Continued)

Risks common to traded REIT securities

REIT units traded on the NSE and the prices are subject to securities market volatility, reflecting demand and supply conditions, just like other listed securities. The price obtainable on sale of a REIT unit on a public exchange can go up or down and may differ from the reported NAV per REIT unit. The price of the REIT Scheme units will generally reflect prospective investors' confidence in Kenya's economy, the property market and its returns, the REIT Scheme management and interest rates.

RISKS ASSOCIATED WITH THE ILAM FAHARI I-REIT STRUCTURE

Market risk

The underlying asset value of ILAM Fahari I-REIT's properties may be impacted by fluctuations in supply and demand for the type of rental properties that the REIT has invested in. ILAM Fahari I-REIT's reported financial results may be affected by losses recognised on the revaluation of investment properties being charged to the profit or loss statement. The REIT prepares its financial statements in accordance with IFRS. As currently permitted by IFRS, investment properties held to earn rentals and for capital appreciation are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Any revaluation surpluses or deficits arising from the revaluation of investment properties are reflected in the profit or loss statement.

The REIT Manager mitigates the impact of these risks on ILAM Fahari I-REIT's underlying asset values and operating performance by applying a careful investment evaluation process to help ensure that the seed properties selected and new Eligible Assets that the ILAM Fahari I-REIT may invest in the future are in line with the REIT's stated investment philosophy and objectives and meet the minimum investment return criteria.

Income risk

Rental income earned from, and the value of, ILAM Fahari I-REIT's investment properties may be adversely affected by a number of factors and distributions may not be made if the REIT reports an operating loss. Reduction in reported rental income and operating profits may arise, for example, if tenancy agreements of the underlying properties are renewed at a lower rental rate than the previous agreement or if the occupancy rate falls. This in turn, reduces property income and ILAM Fahari I-REIT's ability to recover certain operating costs such as service charges. Other factors could include changes in the REIT's ability to collect rent from tenants on a timely basis or at all; changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, taxes and government charges. Such revisions may lead to an increase in the management expenses or unforeseen capital expenditure to ensure compliance. Rights related to the relevant properties may also be restricted by legislative actions, such as revisions to the building standards laws or the city planning laws, or the enactment of new laws related to construction and redevelopment.

The REIT Manager mitigates the impact of such factors by implementing portfolio specific strategies and operational initiatives. These include activities such as: income flow management; lease audit and data integrity review; vacancy management and leasing strategy; review of lease structures; and cost optimization management. In particular, the leasing strategy includes procuring of payment upfront and contractual lock-ins of rental rates and other clauses in tenancy agreements.

RISKS MANAGEMENT (Continued)
RISKS ASSOCIATED WITH THE ILAM FAHARI I-REIT STRUCTURE (Continued)

Securities liquidity risk

The ILAM Fahari I-REIT is the first I-REIT to have its units listed on the NSE. As with other listed securities listing and quotation does not guarantee that a highly-liquid trading market for the units will remain strong.

Regulatory risk

Changes to the regulatory framework applicable to a REIT could impact the REIT's financial performance and after-tax returns to unitholders. The ILAM Fahari I-REIT is subject to the REITs Regulations and the regime governing I-REITs in Kenya remains relatively new. Future changes may occur in laws and regulations that impact the REIT Scheme. Alternatively, there may be changes to enforcement or regulatory interpretation of laws leading to changes in the legal requirements affecting the REIT Scheme.

The REIT Manager mitigates this regulatory risk by participating actively in industry forums to discuss and debate potential regulatory changes and their potential impact.

Tax risks

At the establishment of the ILAM Fahari I-REIT, the REIT was and still is exempt from income tax in line with section 20(1)(c) of the Kenyan Income Tax Act, however, the REIT wholly owned subsidiaries were not explicitly exempt. In November 2019, the Finance Act No.23 of 2019 introduced section 20(1)(d) to the Kenyan Income Tax Act to exempt investee companies of REITs from income tax. This new development in the tax regulations removes the long-standing uncertainty as to the exemption status of the ILAM Fahari I-REIT subsidiaries.

The Kenya Revenue Authority ("KRA") is expected to publish subsidiary regulations or rules within the Kenyan Income Tax Act to provide detailed provisions and guidelines on the new section 20(1)(d). In addition, these rules are expected to result in the REIT's wholly owned subsidiaries not incurring any tax liability as a result of the delay in the introduction of tax legislation that aligns with the CMA REITs Regulations.

The REIT is required to distribute at least 80 percent of its distributable income to its unitholders annually. Failure to distribute at least 80 percent of its distributable income to unitholders, changes to the interpretation of current tax laws and any new laws and regulations that may be introduced in the future could adversely impact the tax liability of the REIT Scheme. Such changes may reduce income, distributions and unitholder returns. The Kenyan Parliament re-introduced Capital Gains Tax at a rate of 5% effective 1 January 2015. The KRA has confirmed that organizations that are exempted from income tax, such as registered REIT Schemes, will not be subjected to Capital Gains Tax. Consequently, the reintroduction of Capital Gains Tax is not expected to negatively impact the return and distribution of any capital gains achieved on the underlying properties acquired by the REIT Scheme, should it divest its interest in these properties and realize a capital gain.

The REIT Manager and Trustee mitigates these tax risks by, firstly, monitoring and taking proactive action to help ensure that the REIT remains compliant with tax registration requirements, secondly, ensuring that at least 80 percent of the distributable income of the REIT is distributed to unitholders and, thirdly, by participating actively in industry forums to discuss and debate proposed changes to the tax legislation. The REIT Manager is also extensively involved, alongside industry bodies such as the REITs Association of Kenya, in lobbying for the required tax reforms affecting REITs in Kenya to be duly implemented

RISKS MANAGEMENT (Continued)

RISKS ASSOCIATED WITH THE SCHEME'S PROPOSED INVESTMENT PORTFOLIO

Risks arising from acquisition of special purpose vehicles

The ILAM Fahari I-REIT has and continues to acquire investment properties through the purchase of shares in limited liability companies or partnerships (special purpose vehicles) that own underlying investment properties rather than purchasing the underlying properties directly. As is common with acquisitions of this type, the REIT's policy is to complete due diligence on any such company it wishes to purchase. Further, the REIT's policy is to enter into contractual arrangements that include obligations for the vendor to identify and settle liabilities of the target company prior to the sale and to provide certain, limited, ability for the REIT and the target company to make claims against the vendors in the event that they suffer losses relating to pre-acquisition liabilities and claims that may only come to light and crystallize after the acquisition.

However, there remains a residual risk that the REIT may not be able to claim full reimbursement for the losses that it might suffer in respect of such pre-acquisition liabilities and claims that are identified and crystallize after the acquisition because of contractual limitations and because the REIT may be unable to collect claim reimbursements on a timely basis or at all.

The REIT Manager mitigates this risk by ensuring that it monitors liabilities and claims against the companies that the Scheme purchases carefully and puts in place appropriate processes to identify potential claims, to submit claims and to follow up and collect such claims.

SUSTAINABILITY REPORT

SUSTAINABILITY REPORT

PHILOSOPHY

Sustainable development is core to delivering on our growth objectives. Underpinning our corporate philosophy and growth path is an appreciation that our growth drivers cannot be achieved effectively without a committed focus to sustainable development.

Our Social and Environmental Management System (SEMS) provides guidance during the investment decision-making process and on-going management of projects. Compliance with the SEMS is a condition for all investments.

ONGOING EVALUATION OF ENVIRONMENT AND SOCIAL STANDARDS

The REIT procures the services of an independent environment and social governance specialist to evaluate and monitor compliance with the REIT's environment and social standards. The 2020 evaluation was conducted by Environmental Business Strategies Kenya Limited ("EBS"). The same applies to the previous financial years.

ENVIRONMENTAL DATA

	UNIT	2016	2017	2018	2019	2020
ENERGY CONSUMPTION*	KShs	19,123,842	21,781,620	22,041,371	22,893,763	20,997,105
WATER CONSUMPTION*	m3	43,450	44,410	75,912	60,812	46,133
WASTE GENERATION	Tonnes					
Greenspan Mall		720	768	588	614	422
67 Gitanga Place		N/A	N/A	358	204	96

*Greenspan Mall only

SUSTAINABILITY REPORT (CONTINUED)

REFLECTING ON 2020

GREENSPAN MALL

E&S area	Details
Response to Covid-19	In line with government requirements the Mall has made wearing of face masks mandatory for accessing the Mall's premises. Security guards at the main entrances undertake temperature screening of all persons entering the Mall premises and ensure masks wearing is observed. The Mall has also provided hand washing stations and soap to be used by all Mall users. These are stationed within the Mall parking enabling users to handwash before entering the Mall buildings. Automatic sanitizers are stationed in strategic places within the Mall including the main entrances and at the lift lobby. In addition, deep cleaning is done on a monthly basis alongside fumigation.
Security	In 2020, the Mall reinforced the investment in Close Circuit Television (CCTV) by upgrading the Public Address (PA) system. This will enable the Mall to easily relay information to tenants and Mall users, an aspect that is particularly important in emergency situations. Upgrades anticipated in 2020, including changing the current software in use to enable greater versatility of the surveillance system including allowing for offsite surveillance, offsite backup and improvements in reviewing of security incidences are still pending. The CCTV room is fully maned and enhanced entry has been undertaken through a biometric door lock.
Waste management	Tenants have been encouraged to segregate their waste at source as opposed to relying on the waste contractors to do so. As a result, there has been a marked improvement in the management of solid waste including efforts at segregation and other housekeeping practices. Large restaurants have hired an independent waste oil collector to collect and dispose of used cooking oil, which is considered hazardous waste.
Firefighting equipment	Emergency firefighting equipment, comprising fire hydrants and serviced extinguishers are strategically placed at different locations around the Mall. As at the close of 2020, the Mall had 25 fire and first aid marshals. Due to the Coivd-19 pandemic, no emergency drill was conducted in 2020.
Safety audits	Lift and escalator safety audits continued to be conducted by registered and approved inspectors. The same applies to fire and workplace safety audits.

GITANGA PLACE

E&S area	Details
Response to Covid-19	The tenant undertook far reaching action in response to the Covid-19 pandemic. Firstly, all interaction with external parties was limited to only essential engagements. Access to the offices is now highly regulated and outsiders are only permitted access to common areas. In addition, a strident entry procedure has been enacted including sanitizing, thermal temperature checks and mandatory wearing of masks.
Safety audits	Lift and escalator safety audits continued to be conducted by registered and approved inspectors. The same applies to fire and workplace safety audits.

SUSTAINABILITY REPORT (Continued)

STATUS ON 2020 PRIORITIES

Property	E&S area	Status	Details
Greenspan Mall	Consider water harvesting and recycling Security upgrades including barriers, central management system, PA system	x	Ongoing Completed
67 Gitanga Place	Emergency drill	x	Pending. Interrupted by Covid-19 pandemic
	Consider water harvesting and recycling	x	Ongoing

FOCUS IN 2021

Property	E&S area
Greenspan Mall	Consider water recycling – grey water reuse
67 Gitanga Place	Emergency drill
	First aid training
Bay Holdings	Fire safety policy and rectification of fire safety related issues

REPORT OF THE REIT MANAGER

REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financials for the year ended 31 December 2020, which reflects the state of affairs of the REIT. This report has been prepared in line with the requirements of the Fifth Schedule of the Regulations. The REIT Manager's report and the financial statements have been approved by the Trustee.

NATURE OF BUSINESS

The ILAM Fahari I-REIT is a real estate investment trust licenced under the REITs Regulations. The REIT was authorised by the Capital Markets Authority on 30 September 2015 and became the first REIT in East Africa. It later became listed on the Nairobi Securities Exchange on 26 November 2015, raising capital of KShs. 3.6 billion. The REIT's duration is a maximum 80 years subject to the provisions of the Trust Deed. The REIT Scheme is a closed ended Scheme and trades as "FAHR" on the Nairobi Securities Exchange ("NSE").

The principal activities of the REIT include but are not limited to:

The acquisition, for long-term investment, of income-generating eligible real estate and eligible investments, but not limited to housing, commercial and other real estate;

Undertaking of such development and construction activities as may be permitted by the Capital Markets Act, Chapter 485A of the Laws of Kenya and the REITs Regulations; and

Investing in cash, deposits, bonds, securities and money market instruments.

SCHEME'S OBJECTIVES AS AT THE DATE OF THE REPORT AND ANY CHANGES SINCE LAST REPORT

The objectives of the REIT Scheme have not changed since the last report. The primary objective of the REIT Scheme is to provide unitholders with stable annual cash distributions from investment in a diversified portfolio of income generating real estate assets.

Further objective is to improve and maximise unit value through the on-going management of the REIT Scheme's assets, future acquisitions and the development of additional income producing real estate assets within regulatory limits.

DIRECTORS OF THE REIT MANAGER

The directors of STANLIB Kenya Limited during the period under review and up to 18 May 2020 when it resigned and was replaced by ICEA LION Asset Management are:

Director's name	Role	Appointment/resignation date
Surinder Kapila	Non-executive Chairman	Resigned 18 May 2020
Nkoregamba Mwebesa	Managing Director	Resigned 31 January 2020
Mike du Toit*	Non-executive Director	Resigned 18 May 2020
Patrick Mamathuba*	Non-executive Director	Resigned 18 May 2020
John Sturgeon*	Non-executive Director	Resigned 18 May 2020

*South African

The directors of ICEA LION Asset Management Limited who became the REIT Manager from 18 May 2020 and up to the date of this report were:

Director's name	Role	Appointment/(resignation date)
Andrew Ndegwa	Non- Executive Chairman	Appointed 18 May 2020
Einstein Kihanda	Chief Executive Officer	Appointed 18 May 2020
Patrick Mugambi	Non- Executive Director	Appointed 18 May 2020
Stephen Mallowah	Non- Executive Director	Appointed 18 May 2020
Kairo Thuo	Non- Executive Director	Appointed 18 May 2020
Justus Mutiga	Non- Executive Director	Appointed 18 May/ (Retired 31 December 2020)
Steven Oluoch	Non- Executive Director	Appointed 18 May/ (Retired 1 October 2020)

REPORT OF THE REIT MANAGER (Continued)

ACQUISITIONS

Acquisitions during the period

During the period under review, the REIT did not acquire any eligible real estate assets.

Real estate assets contracted for purchase or sale At time of report date, no real estate assets were contracted for purchase or sale.

Compliance with Regulation 66

The Scheme completed the acquisitions of the nominated real estate investment (seed assets) within regulatory limit.

Other non-direct real estate assets

Other than the assets mentioned in this report, the REIT does not hold any other non-direct real estate assets.

BUSINESS REVIEW

Performance highlights

Details	2020	2019	% Change
Net profit for the year (KShs)	148,025,113	175,228,248	-16%
Rental and related income (KShs)	341,156,587	344,346,639	-1%
Property expenses	130,361,698	114,334,308	14%
Fund operating expenses	99,249,948	111,301,743	-11%
Fair value adjustment	13,604,197	31,194,053	-56%
Distributable earnings (KShs)	134,420,916	144,034,195	-7%
Market value of property portfolio (KShs)	3,481,400,000	3,456,600,000	1%
Net asset value per unit (KShs)	20.86	20.80	0.29%
Distribution per unit (KShs)	0.60	0.75	-20%

Net earnings decreased by 16% to KShs. 148.0 million mainly due to a reduction in fair value gain on revaluation of investment property against the backdrop of the Covid-19 pandemic. Three assets experienced a devaluation due to the pandemic whose impact is a material valuation uncertainty in the short to medium term. In addition, there was significant increase in provision for bad debts resulting from the financial difficulties experienced by the anchor tenant at Greenspan Mall Limited as well as temporary rebates offered to some tenants.

Distributable earnings declined by 7% to KShs. 134.4 million compared to KShs. 144.0 million in the comparative period as a result of the significant increase in property expenses emanating from the provision for bad debts. Rental income decreased slightly by 1% due to rental rebates offered to tenants at Greenspan Mall Limited and Bay Holdings Limited. This was however, offset by the lease escalations at Starling Park Properties LLP as well as Greenspan Mall Limited hence the minimal impact of the rebates on the portfolio performance. Property expenses grew by 14% mainly due to the provision for bad debts as explained above. The financial difficulties experienced by the anchor tenant at Greenspan Mall Limited and Covid-19 pandemic affected rental collections hence the significant increase in bad debts Fund operating expenses reduced by 11% mainly after the REIT Manager temporarily reduced their fees by 10% to cushion the investors during a particularly difficult year. Implementing a sound leasing strategy, debtors management, reducing vacancies and cost reduction initiatives continue to be among the key focus areas of the fund in order to improve returns.

DISTRIBUTION

The REIT Manager has recommended, and the Trustee has approved a first and final distribution of KShs. 108,583,380 in respect of the year ended 31 December 2020 (2019: KShs. 135,729,225). The distribution was declared out of distributable earnings and met the requirements of a minimum distribution in terms of the REITs Regulations, which require that a minimum of 80% of net profit after tax, from sources other than realised gains from disposal of real estate assets, is distributed.

REPORT OF THE REIT MANAGER (CONTINUED)
DISTRIBUTION (Continued)

The table below outlines the distribution as a percentage of distributable earnings:

Details	2020	2019	2018	2017	2016
Distributable earnings (KShs)	134,420,916	144,034,195	127,885,294	149,113,640	98,000,288
Minimum distribution per Trust Deed and Regulations (80%)	107,536,733	115,227,356	102,308,235	119,290,912	78,400,230
Distribution (KShs)	108,583,380	135,729,225	135,729,225	135,729,225	90,486,150
Distribution as a % of distributable earnings (%)	81	94	106	91	92
Weighted average units in issue (number)	180,972,300	180,972,300	180,972,300	180,972,300	180,972,300
Distributable earnings per unit (KShs)	0.74	0.80	0.71	0.82	0.54
Distribution per unit (KShs)	0.60	0.75	0.75	0.75	0.50

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2020 resulting in a non-adjusting event that is not recognised in the financial statements. The Regulations require that the distribution is paid by no later than 30 April 2021.

TRUST CAPITAL

The REIT has 625,000,000 authorised units at a nominal value of KShs. 20 per unit. Through an initial public offer that took place in October 2015, the REIT issued 180,972,300 units at a nominal value of KShs. 20 per unit raising a total of capital of KShs. 3,619,446,000. This has been reduced by transaction costs of KShs. 139,905,255 on issue of units.

DIRECTORS OF THE REIT MANAGER'S INTEREST IN THE ISSUED UNITS OF THE REIT

Director's name	Number of units	
	2020	**2019**
Patrick Mamathuba	257,000	257,000
Mike du Toit	91,900	91,900
Total units	**348,900**	**348,900**

The above directors served under the STANLIB Kenya Limited, the REIT Manager who resigned on 18 May 2020 and was replaced by ICEA LION Asset Management Limited on the same date.

GOING CONCERN

The annual financial statements have been prepared using appropriate accounting policies consistent with those applied at the last report, supported by reasonable and prudent judgments and estimates. The REIT Manager has a reasonable expectation based on an appropriate assessment of a comprehensive range of factors, that the REIT has adequate resources to continue as a going concern for the foreseeable future and at least for the next twelve months from the date of this report. Furthermore, the REIT Manager has assessed the potential impact of the Covid-19 pandemic on its ability to continue as a going concern. Having considered the inevitable economic fallout from the pandemic, the REIT Manager has a reasonable expectation, supported by the strength of its liquidity, that the REIT has adequate resources to continue as a going concern for the foreseeable future and at least for the next twelve months from the date of this report.

BRIEF STATEMENT OF BORROWINGS AND FINANCIAL ARRANGEMENTS

The REIT has not entered into any borrowings or financial arrangement in the period under review.

AUDITORS

The REIT's auditor, KPMG Kenya, continues in office in line with the requirements of the Regulations.

REPORT OF THE REIT MANAGER (Continued)

REIT MANAGER'S OPERATIONAL REVIEW

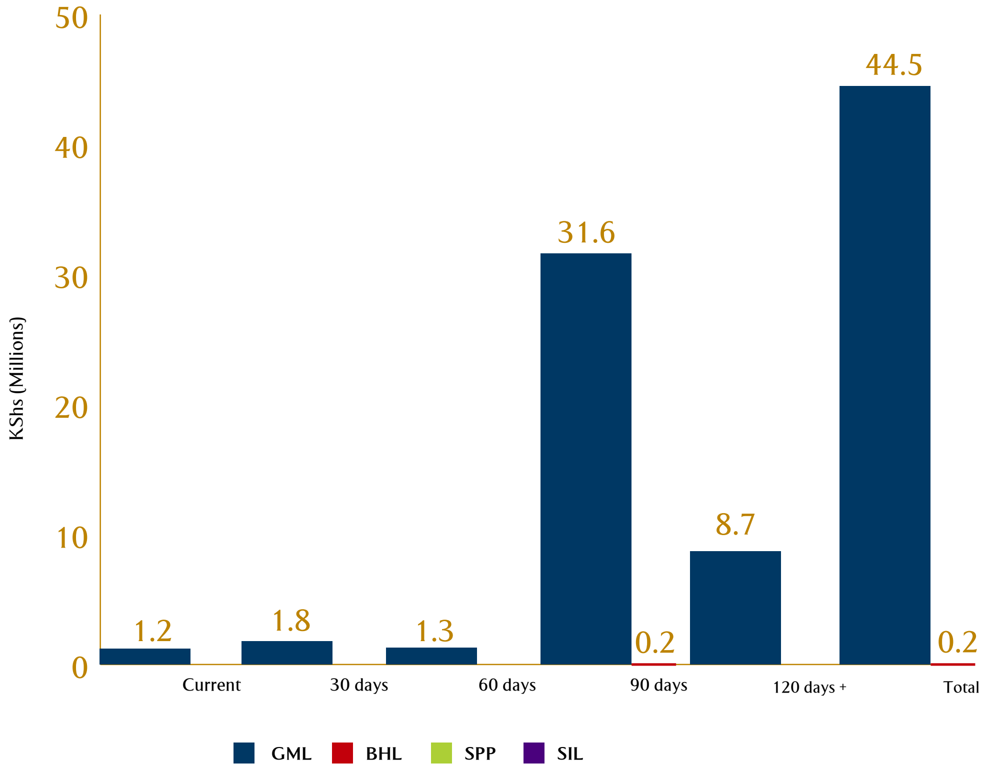
2020 was a very challenging year with the Covid-19 pandemic affecting the portfolio's operations. The REIT manager ensured Covid-19 protocols were observed in line with the Government guidelines to reduce the spread of the virus. The REIT Manager also successfully installed additional security equipment to enhance security at Greenspan Mall.

In addition to the above, the REIT Manager continued to perform strategic and operational functions in managing the property portfolio and cash reserves in order to ensure effective long-term management of the REIT to deliver investor returns and comply with regulatory and legislative requirements:

- Redefining and implementation of the portfolio strategy, which manages risk through portfolio diversification and seeks to deliver appropriately risk-adjusted returns through superior asset allocation and selection; Cash management (all cash collected from rentals continues to be invested in a diversified portfolio of near-cash instruments, in line with a dedicated Investment Policy Statement ("IPS"), to ensure optimal returns with minimal exposure to financial-sector risk);
- Liquidity planning (once the cash is optimally invested, sufficient liquidity is available to make payments when due); Exploration of mechanisms to raise additional capital (such as debt financing, vendor placement, and general issuances of new equity);
- Efficient use of capital at the subsidiary level, through management of capital expenditure to improve core asset value; Deal management - ensuring that risk is managed and obligations are met through to deal execution;
- Investigation of redevelopment opportunities in the existing portfolio to maximise property returns; Managing properties in accordance with their specific property strategies (which guide the composition of tenant mix and execution of leasing strategy) such that net income and capital growth at a property level is optimised, in a manner that is aligned to the fund strategy;
- Debtors management – implementing stringent debt collection policies and procedures that ensure delinquent tenants are managed proactively to minimise impairment risk.
- Management of service providers, such that their delivery is aligned to property-level as well as portfolio-level strategy.

KEY PERFORMANCE INDICATORS

Debtors Age Analysis

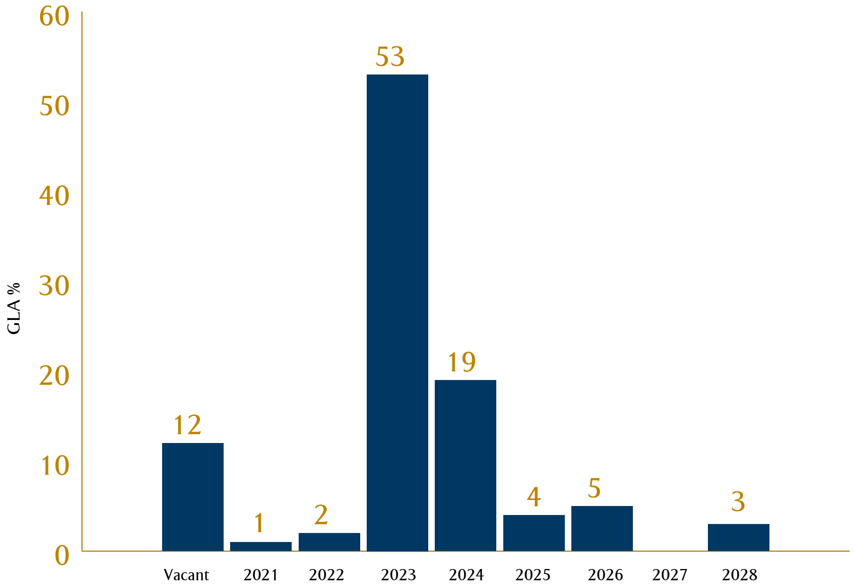


Tenant arrears (excluding service charge receivable) stood at KShs. 44.7 million at end of 2020 (2019: KShs. 31.6 million). The significant increase in arrears is attributable to the financial difficulties experienced by the anchor tenant at Greenspan Mall as well as to the Covid-19 pandemic.

REPORT OF THE REIT MANAGER (Continued)

KEY PERFORMANCE INDICATORS (Continued)

Lease Expiry Profile by Gross Lettable Area (GLA)



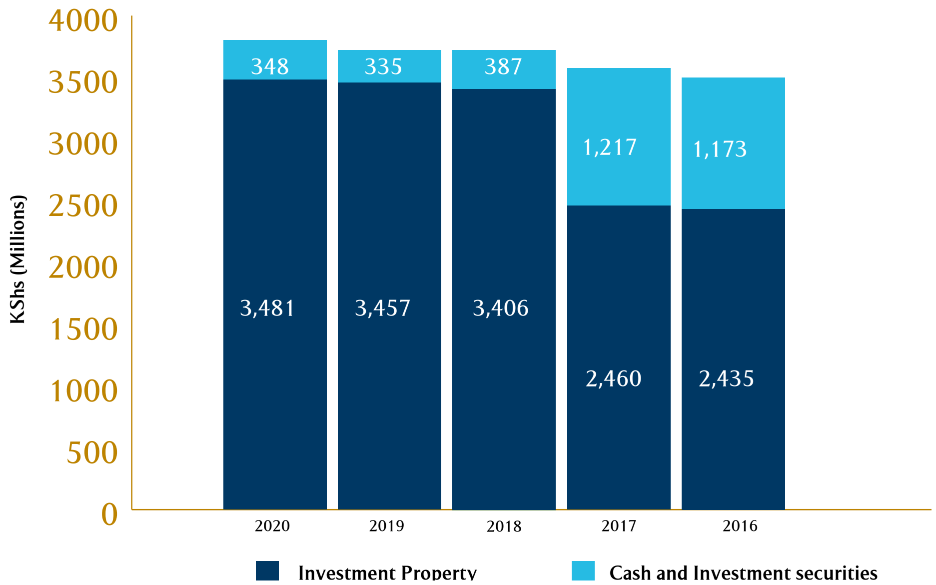
The lease expiry profile continues to be well spread with 85% of the GLA expiring from two years after reporting date. The spike in 2023 is due to the expiry of the anchor tenant lease at Greenspan Mall.

VACANCIES

The total portfolio vacancy rate is at 11.9% while the portfolio target is at 5%.

Property	GLA	Vacant GLA	Vacancy %
Greenspan Mall	155,477	20,546	13.2%
67 Gitanga Place	41,312	-	-
Bay Holdings	33,265	-	-
Highway House	7,638	7,638	100.0%
Total weighted average	237,692	28,184	11.9%

ASSETS UNDER MANAGEMENT (AUM)



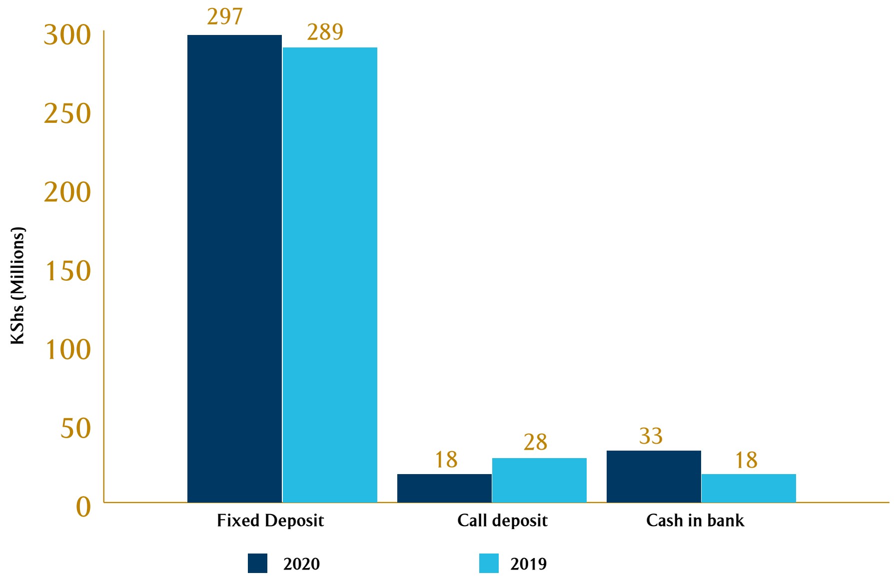
In 2020 the AUM increased slightly by 1% to at KShs. 3.83 billion (2019: KShs. 3.79 billion) with investment property growing marginally by 0.7% due to the revaluation gain as well as the security improvements at Greenspan Mall. Cash and investment securities also increased marginally due to higher rent collection resulting from lease escalations.

CASH & NEAR CASH ASSETS (KSHS)

Cash instruments	2020	2019
Cash and cash equivalents	197,772,556	96,063,143
Investment securities	150,437,699	238,925,753
Total	348,210,254	334,988,896

To ensure optimisation of interest income returns, cash from property subsidiaries is swept into the REIT's investment account on a daily basis and is then invested in competitively priced cash investment instruments. In the above table, fixed deposit and all Treasury bill instruments that have a maturity greater than 90 days at inception are classified as investment securities, otherwise they are included in cash and cash equivalents.

REPORT OF THE REIT MANAGER (Continued)
CASH & NEAR CASH ASSETS (Continued)
Breakdown of Cash and near cash assets



Fixed deposit instruments continue to dominate the portfolio with minimal investment in the call deposit. The REIT did not invest in Government securities during the year under review.

NET ASSET VALUE

Movement in Net Asset Value (KShs)	2020	2019
Total asset value	3,883,746,200	3,878,449,025
Net asset value	3,775,738,737	3,763,442,849
Number of units in issue	180,972,300	180,972,300
Net asset value per unit	20.86	20.80

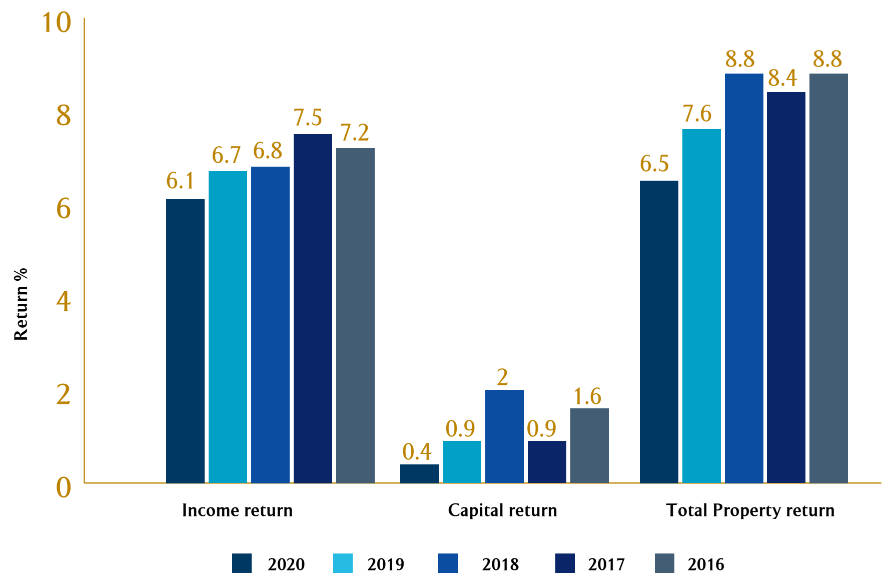
The increase in total assets and net asset value is attributable to the revaluation gain of KShs. 13.6 million as well as net operating profit for the year ended December 2020 of KShs. 134.4 million (net of revaluation gain less the impact of the distribution paid during the year).

NET ASSET VALUE PRIOR AND POST DISTRIBUTION OF EARNINGS

As at 31 December (KShs)	2020	2019	2018	2017	2016
Net asset value prior to distribution	3,775,738,737	3,763,442,849	3,723,943,826	3,666,181,292	3,585,541,033
Net asset value post distribution	3,667,155,357	3,627,713,624	3,588,214,601	3,530,452,067	3,495,054,883
Net asset value per unit prior to distribution	20.86	20.80	20.58	20.26	19.81
Net asset value per unit post distribution	20.26	20.05	19.83	19.51	19.31
Yield based on the value of the unit as at 31 December	10.6%	8.0%	6.8%	7.0%	4.3%

FUND RETURNS

Property returns



Property is valued once at the end of the financial year by an independent valuer.

REPORT OF THE REIT MANAGER (Continued)
FUND RETURNS (Continued)

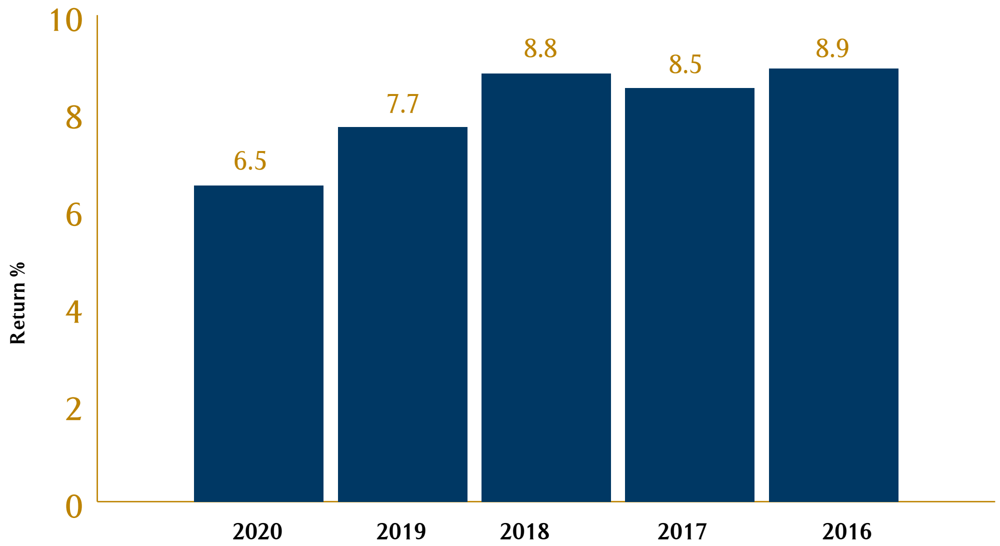
Investment income return (annualised) (%)

	2020	2019	2018	2017	2016
Fixed and call deposit interest return	7.2	8.5	8.6	8.5	9.2
Treasury bills income return	-	9.3	11.1	10.3	9.3
Weighted average interest return	7.2	8.6	8.8	8.7	9.2

Total portfolio return

The total portfolio return comprises the weighted average property and interest income return over the various reporting periods. The average split between property and cash instruments has been 91% and 9% in 2020, respectively (2019: 90% and 10%).

Distributions made for the lesser of 5 years or since the establishment of the scheme



Sources of distribution(KShs)	2020	2019	2018	2017	2016
Net rental/dividend income from wholly owned property companies	211,258,848	230,724,761	201,460,125	184,894,243	190,587,729
Fund interest and other income	22,412,016	24,611,177	56,646,680	99,852,345	111,209,231
	233,670,864	**255,335,938**	**258,106,805**	**284,746,588**	**301,796,960**
Less:					
Fund operating expenses	(99,249,948)	(111,301,743)	(130,221,511)	(135,632,948)	(180,422,344)
Interest paid	-	-	-	-	(23,374,328)
Total potential distributable income from current earnings income	**134,420,916**	**144,034,195**	**127,885,294**	**149,113,640**	**98,000,288**
Distribution from prior year retained earnings	-	-	7,843,931	-	-
Distribution	**108,583,380**	**135,729,225**	**135,729,225**	**135,729,225**	**90,486,150**
Distribution as a % and in compliance with Regulation 72	**81%**	**94%**	**106%**	**91%**	**92%**

Management Expense Ratio

The management expense ratio ("MER") is the total fees and expenses incurred at a fund level expressed as a percentage of the average NAV for the period under review. The following ratio was achieved during the period under review and the comparative periods.

Expense ratio	2020	2019	2018	2017	2016
MER (%)	2.6	3.0	3.5	3.7	5.0

DETAILED ANALYSIS OF UNITHOLDINGS

ILAM Fahari I-REIT is trading as "FAHR" on the NSE under the Unrestricted Main Investment Market Segment of the NSE and may be listed on such other securities exchanges as the unitholders may resolve from time to time.

The units are registered for trading with ISIN Code KE5000003656, are freely transferable on the NSE, and bear no restriction on transfer.

REPORT OF THE REIT MANAGER (Continued)
DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

Fund Open or Closed Fund, Details of any Restrictions on Applications for Redemption

ILAM Fahari I-REIT is a closed-ended fund. Its units can only be traded at the NSE. The market price of the units is market driven and may not necessarily be equal to the NAV of the REIT. There is currently no active secondary market for a REIT in Kenya. However, the REIT Scheme may undertake secondary offers as and when the need arises.

Free Float as Required by Regulation 27 and 29

As at 31 December 2020, none of the ILAM Fahari I-REIT issued units were subjected to any lock-in conditions. Previously, a three-year lock-in period was applicable to the International Finance Corporation ("IFC") held through Standard Chartered Nominees (33.9 million units) and the Liberty Group (26.085 million units). This lock-in period has since lapsed.

The free float as at 31 December 2020 thus amounted to 100% (31 December 2019: 100%).

Statement of number and type of units outstanding as at the date of the report and last financial statements

The REIT has 180,972,300 units in issue as at 31 December 2020 and 31 December 2019. The total number of authorised units is 625,000,000. These have not changed since inception.

Statement of Restriction on Transferability of Units

The units are freely transferable on the NSE, and the Trustee has not imposed any restriction on the transfer of units. As at 31 December 2020, no units were subjected to a lock-in period.

Details of number and price at which units were issued or redeemed and total value of units issued or redeemed during the period covered by the report

Units in issue	2020	2019
Units at the beginning	180,972,300	180,972,300
Units issued during period	-	-
Units in issue at period end	**180,972,300**	**180,972,300**

The REIT has only one class of authorised and issued units. No units were redeemed or issued within the reporting period.

Breakdown of REIT Securities Holdings by Class

The distribution of the REIT's unitholders as at 31 December 2020 was as follows:

Range	Units	Units %	Unit holders	Unit holders %
Less than 100	381	-	32	0.5
100-1,000	1,962,511	1.1	2,414	42.0
1,001-10,000	10,402,588	5.7	2,714	47.3
10,001-100,000	14,126,600	7.8	497	8.7
10,0001-less than 5% of no. of units in issue	77,195,920	42.7	81	1.4
Holdings above 5% of no. of units in issue	77,284,300	42.7	3	0.1
Total	**180,972,300**	**100.0**	**5,741**	**100.0**

REIT Security Holdings by Country

The REIT security holdings by country as at 31 December 2020 were as follows:

Country	Units	Units %
Kenya	170,984,300	94.5
South Africa	8,331,400	4.6
Uganda	950,400	0.5
Others	706,200	0.4
Total	**180,972,300**	**100.0**

REPORT OF THE REIT MANAGER (Continued)
DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

REIT INVESTOR HOLDINGS

Top 10 ILAM Fahari I-REIT unitholders as at 31 December 2020

Holder Names	Units	% Holding
Standard Chartered Nominees Non Resd A/C KE11752	33,900,000	18.73
Standard Chartered Nominees Resd A/C KE11401	25,000,000	13.81
STANLIB Kenya Limited	18,384,300	10.16
Liberty Group Ltd	7,700,700	4.26
Standard Chartered Nominees Resd A/C KE11443	7,333,900	4.05
Stanbic Nominees Ltd A/C R1018467-C	6,805,158	3.76
One Globe Holdings Limited	5,868,600	3.24
Standard Chartered Kenya Nominees Ltd A/C KE13894	3,677,400	2.03
Bid Management Consultancy Limited	3,500,000	1.93
Kenya Commercial Bank Nominees Limited A/C 1018A	3,241,900	1.79
Total	**115,411,958**	**63.74**

CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2020 was as follows:

The REIT's closing price at end of year is outlined below:

	2020	2019
Closing price per unit (KShs)	5.65	9.42

CONNECTED PARTY TRANSACTIONS

The following are connected parties to the REIT, who had dealings with the REIT and the relevant transactions:

a. Identification of connected parties who had dealings with the REIT

Connected party	Relationship	Transaction
STANLIB Kenya Limited	REIT Manager	Asset management fees
ICEA LION Asset Management Limited	REIT Manager	Asset management fees
The Co-operative Bank of Kenya Limited	Trustee	Trustee and custodial fees
Jones Lang LaSalle Kenya Ltd	Valuer	Valuation
Viva Africa Consulting	Tax advisor	Tax consultancy services

*Resigned as the REIT Manager on 18 May 2020.

b. Connected party transactions – fees paid

Transaction (KShs)	2020	2019
Asset management fees – STANLIB Kenya Limited	23,499,607	70,000,000
Asset management fees – ICEA LION Asset Management Limited	39,500,393	-
Trustee fees – Co-op Bank	22,588,586	22,290,799
Custodial fees – Co-op Bank	1,807,247	1,329,213
Other administrative fees – Co-op Bank	919,980	879,883
Valuation fees – Jones Lang LaSalle Kenya Ltd	1,933,334	-
Tax consultancy services fee paid to Viva Africa Consulting	125,000	-
Valuation fees – Knight Frank Valuers Limited	-	1,500,000
Valuation fees – Crystal Valuers Limited	-	200,000
Total	**90,374,147**	**96,199,895**

REPORT OF THE REIT MANAGER (Continued)
CONNECTED PARTY TRANSACTIONS (Continued)

c. Connected party balances

The REIT had the following cash balances held with Co-op Bank:

Bank account name (KShs)	2020	2019
Investment account – fixed deposits	50,000,000	142,000,000
Investment account – call deposits	10,000,000	8,800,000
Investment account	14,289,815	4,932,056
Rent collection account – Greenspan Mall	3,472,423	4,084,208
Service charge account – Greenspan Mall	7,097,681	6,861,102
Service charge account – Starling Park Properties	5,218,599	463,185
Rent collection account – Bay Holdings	2,759,850	1,500,000
Rent collection account – Signature International	37,040	391,958
Total	**92,875,408**	**169,032,509**

d. Units held by connected parties to the REIT

Promoter Holdings as at 31 December 2020	Units	Holding %
STANLIB Kenya Limited**	18,384,300	10.16
Liberty Group Limited**	7,700,700	4.26
Total	**26,085,000**	**14.42**

e. Units held by the directors of connected parties to the REIT

Director's name	2020	2019
Patrick Mamathuba*	257,000	257,000
Mike du Toit*	91,900	91,900
Total	**348,900**	**348,900**

*Directors served under STANLIB Kenya Limited who resigned as REIT Manager on 18 May 2020 and replaced by ICEA LION Asset Management Limited on the same date.

**The related parties were the REIT Manager and a related party to the REIT Manager who resigned as REIT Manager on 18 May 2020.

INVESTMENTS IN ANY WHOLLY OWNED AND CONTROLLED COMPANY CARRYING OUT REAL ESTATE RELATED ACTIVITIES

- The asset known as Greenspan Mall is held within the wholly-owned subsidiary Greenspan Mall Limited.
- The asset known as Highway House is held within the wholly-owned subsidiary Signature International Limited.
- The asset known as Bay Holdings is held within the wholly-owned subsidiary Bay Holdings Limited.
- The asset known as 67 Gitanga Place is held through the partnership - Starling Park Properties LLP. Starling Park Properties is 99% owned by the REIT and 1% by Greenspan Mall Limited which holds the 1% partnership interest in trust on behalf of the REIT.

FEES PAID BY THE REIT as per REGULATIONS

Transaction (KShs)	2020	2019
Asset management fees – STANLIB Kenya Limited	23,499,607	70,000,000
Asset management fees – ICEA LION Asset Management Limited	39,500,393	-
Trustee, custodial and other fees – Co-op Bank	25,315,813	24,499,895
Property management fees – CBRE Excellerate	13,557,638	14,076,899
Valuation fees – Jones Lang LaSalle Kenya Ltd	1,933,334	-
Valuation fees – Knight Frank Valuers	-	1,500,000
Valuation fees – Crystal Valuers	-	232,000
Total	**103,806,785**	**110,308,794**

PROPERTIES DETAILED REPORT

GREENSPAN MALL

Greenspan Mall is a modern decentralized mixed-use development, situated on 3.8 hectares (9.5 acres), within the middle-income area of Donholm approximately 12 km to the east of the Nairobi CBD. The development comprises a retail centre with a GLA of approximately 16,105 m² (155,477 sq.ft.) with 1,000 parking spaces.

The acquisition price (on 11 December 2015) was KShs. 2,093,576,710.

The property is registered as L.R. No. Nairobi/Block 82/8759 (F1, F2, F3, F4 & F5). It is held as leasehold interest for a term of 99 years less 7 days, with lease commencement

REPORT OF THE REIT MANAGER (Continued)
PROPERTIES DETAILED REPORT(Continued)
GREENSPAN MALL (Continued)

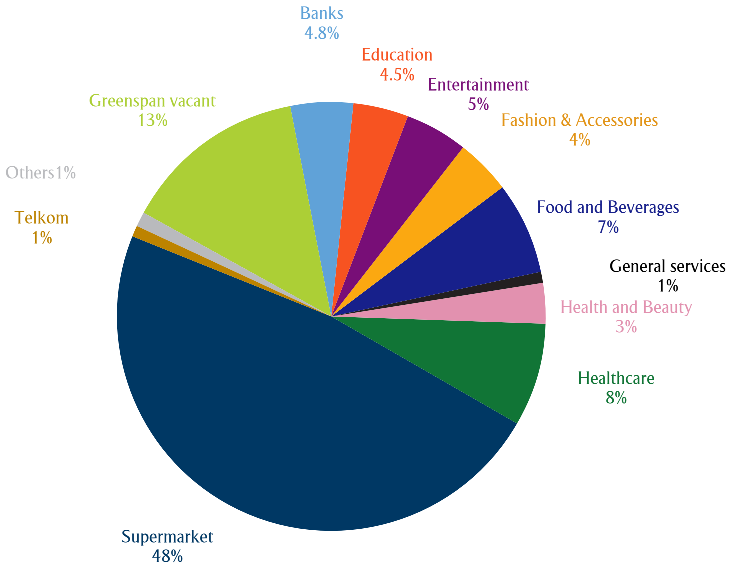
date 1 September 2007 at peppercorn rent, if demanded. As at 31 December 2020, the property has an unexpired leasehold term of 86 years.

The mall has a parking ratio in excess of 4 bays per 100 m² of GLA, has a captive middle market within the larger Greenspan estate and offers opportunity to develop an additional 2 acres of vacant land forming part of the acquisition.

The property presents an ideal location with potential to improve the returns through development of excess land and reconfiguration of the mall/ tenant mix. Anchored by Tuskys, it offers fast food restaurants and bars, as well as various service related tenants such as banks, wellness centres, entertainment centres, salons and small non-branded fashion and apparel component. The anchor tenant occupies 47.8% of the GLA while the balance is occupied by services, food, clothing and apparel. A newly constructed cinema became operational from the fourth quarter of 2019.

Greenspan Mall has a well smoothed lease expiry profile making it easy to manage the tenant mix to optimize the rental income stream.

Greenspan Mall Tenant Mix



SIGNATURE INTERNATIONAL LIMITED

The property known as Highway House is a three storey industrial building located in a growing office node on Pokomo Road, off Mombasa Road.

Highway House is located on L.R. No. 37/157 (Original Number L.R. No. 37/54/18) measuring 0.1089 of an acre with a land-lease term of 99 years commencing 1 July 1956, and registered as Title Number I.R 22130. As at 31 December 2020, the property has an unexpired leasehold term of 35 years.

The property was transferred into the portfolio at a net acquisition price of KShs. 108,717,670 on 30 June 2016.

The GLA is approximately 710 m² (7,638 sq.ft.), with ample covered parking bays. The property is currently vacant after the previous tenant's lease expired. Management is working towards finding a replacement tenant.

REPORT OF THE REIT MANAGER (Continued)
PROPERTIES DETAILED REPORT (Continued)

BAY HOLDINGS LIMITED

The property known as Bay Holdings is located at the junction of Enterprise Road and Bamburi Road within the main Industrial Area of Nairobi.

The property is registered as L.R. No. 209/4125 measuring 0.665 of an acre for a term of 99 years from 1 January 1949 and registered as Title Number I.R 93022. The property has an unexpired leasehold term of 28 years as at 31 December 2020.

The acquisition of Bay Holdings Limited was concluded on 30 June 2016 for an amount of KShs. 216,122,547.

The GLA is 2,566 m2 (33,265 sq.ft.) with a covered area for parking.

The building is currently fully let to three tenants; Imperial Bank, Packard Limited and Architecture Supply Limited.

STARLING PARK PROPERTIES LLP

The property known as 67 Gitanga Place is located on Gitanga Road off James Gichuru Road in Lavington, Nairobi.

The property is registered as L.R. No. 3734/917 measuring 0.2830 hectares for a leasehold term of 99 years from 1 April 2016. The property has an unexpired leasehold term of 94 years, 4 months as at 31 December 2020.

The acquisition of Starling Park Properties LLP was concluded on 29 May 2018 for an amount of KShs. 850,037,500 (including the value of equipment and deposits valued at KShs. 37,500).

The GLA is 3,838 m2 (41,312 sq.ft.). The property has basement parking.

The building is single tenanted.

REPORT OF THE REIT MANAGER (Continued)

SUMMARY OF RECENT VALUATIONS

The investment properties were revalued by Jones Lang LaSalle Kenya Ltd as at 31 December 2020. In the prior year, valuation was done by Knight Frank Valuers Limited and Crystal Valuers Limited. The market values at revaluation are summarized below:

Transaction	2020	2019
Greenspan Mall	2,400,000,000	2,307,000,000
Starling Park Properties LLP	847,200,000	883,000,000
Bay Holdings	204,900,000	233,600,000
Signature International	29,300,000	33,000,000
Total	3,481,400,000	3,456,600,000

Copies of the valuation reports are available for inspection free of charge at the offices of the REIT Manager and may be inspected between the hours of 09h30 – 15h00, Monday to Friday (excluding public holidays).

PROPERTY MARKET UPDATE

Retail sector

According to Knight Frank's report, prime retail rents remained flat on average in 2020. This stagnation was attributed to the weak economic climate which was caused largely by restrictions on mobility due to the Covid-19 pandemic, oversupply of retail centers, and reduced disposable income across the country. In response to the flat rents, Landlords adopted a range of lease concessions in a bid to retain and attract tenants. As a result of the lease concessions, occupancy levels for established malls averaged 90% while retail centers averaged 70% - 80%. Footfall to retail centers however recorded a discernible improvement in the 2nd half 2020. According to the World Bank, mobility data (the weekly average change in activity in retail and recreation centers, groceries, and pharmacy) troughed in April, but the trend has shifted upwards.

Over the review period, key retailers such as Naivas, Quickmart, and Carrefour expanded their local presence, thereby, establishing stronger footprints in the retail market while Tuskys scaled down its operations amidst its financial struggles. Additionally, retail brands continued to expand into malls: Japanese optics and imaging retailer Nikon opened at Yaya Centre, toys retailer Toyzoona, fragrance retailer Michaels Perfumery, and Samsonite opened up at The Junction, South African eatery Ocean Basket and sportswear retailer Adidas opened at Westgate Mall, and lifestyle brand Homebox and fashion brand Max opened at Sarit Centre.

In Kenya, online shopping and deliveries have also increased as retailers fast track their online presence to reach their consumers (Knight Frank, 2020). In response to the Covid-19 crisis, various local supermarket chains partnered strategically with courier services to offer home deliveries allowing them access to a wider audience for example in quarter one, Tuskys and Naivas partnered with Sendy and Glovo respectively. Online retailing is but one facet of the technological evolution happening in real estate known as PropTech. Other innovations include transaction platforms, management platforms, block chain and virtual reality solutions.

In conclusion, given lower levels of demand, Knight Frank expects resident-based retail sales across Africa to contract in 2021. This is expected to translate to the ongoing weak performance of the retail sector. To counter this pessimistic outlook, retailers have to strategize to enable them survive in the weak business environment and climate of growing competition.

Office

As the COVID-19 pandemic rages on, the office market performance remains subdued. According to Knight Frank's report, in Kenya, prime office rents declined in 2020 from KShs 130 per square foot per month to KShs 112 per square foot per month. This was attributed to the continued oversupply of commercial space in some locations and the current economic slowdown. Occupancy rates on average were 72% by the end of 2020, with higher occupancy levels recorded in certain districts such as Westlands. To counter the weak operating environment, Landlords took several measures to protect their tenancies. According to Knight Frank, 27% of office Landlord survey respondents indicated that they had granted their tenants rent deferrals while 33% had undertaken a renegotiation of lease terms with their tenants. On a positive note, data from the World Bank showed improved mobility to the workplace albeit slowly, coupled with reduced mobility to places of residence.

However, Knight Frank also confirmed receiving an increased interest from landlords to dispose of their assets as the pandemic has resulted in various landlords re-evaluating their exposure to real estate within their portfolios. Virtual viewings and online activity continue to gain momentum mainly due to social distancing requirements.

REPORT OF THE REIT MANAGER (Continued)
PROPERTY MARKET UPDATE (Continued)

Office sector - continued

With the average occupancy at 72%, the office sector is set to remain subdued. The reduced supply of office space, however, is expected to cushion the market. In addition, COVID-19 is expected to evolve the office market and form a new working normal.

Industrial

There is continued demand for well-located modern warehouses. Ongoing projects continue to be completed. Phase 1 of the Nairobi Gate Industrial Park located in Northlands City was completed in June 2020. The first two warehouses comprising of 53,820 square feet are ready for occupation. Similarly, phase one of ALP West located at Tilisi Logistics Park was completed in October 2020. In the pharmaceutical space, Swissport, opened their upgraded pharmaceutical shipments facility at JKIA. The dedicated facilities have cooling units for goods which require a temperature range of -10 to -20 °C. To cement its credibility, Swissport was awarded the Centre of Excellence for Independent Validators (CEIV) certification by the International Air Transport Association (IATA), making them the first global air cargo handler to receive the CEIV Pharma certification for a facility in Africa.

Kenya continues to witness the benefits of its massive infrastructural projects. DHL Global Connectedness Index showed Kenya's global connectedness rose by 4 places to 133. This was boosted by the Government's investments on mega-infrastructural projects such as the KShs 327 billion Standard Gauge Railway, KShs 31 billion Thika Road, the ongoing KShs 59 billion Nairobi Expressway, and KShs 2.5 trillion Lamu Port-South Sudan-Ethiopia Transport (Lapsset) corridor project.

Modern warehouses are expected to continue to dominate the market due to consumers turning to online forms of retail amid lockdown measures. Poorly located warehouses will continue to face stiff competition.

REGULATORY LIMITS

REGULATION	REGULATORY LIMIT	ACTUAL AS AT 31 DECEMBER 2020	COMPLIED (√) / NOT COMPLIED (X)/ N/A
Minimum number of REIT securities holders	7	5,741	√
Minimum Free Float	25%	100%	√
Minimum Promoter investment and retention*	25% of NAV	14.42%	N/A
Eligible Investments	75% real estate	91% real estate	√
Minimum income generation	70% of rental income	94%	√
Maximum gearing	35% of total asset value	0%	√
Minimum distributions	80%	81%**	√

***Regulation 74** (minimum retained investments by the Promoter and lock-in period) does not apply to STANLIB Kenya Limited in its capacity as the previous Promoter as it neither sold nor transferred real estate to the REIT Scheme within one year of its establishment. In addition, it does not apply to ICEA LION Asset Management Limited as it is yet to acquire units in the scheme.

** This is in respect of the proposed distribution to be paid out by 30 April 2021.

CHANGE OF REIT MANAGER

On 20 May 2020, STANLIB Kenya Limited ("SKL") together with The Co-operative Bank of Kenya Limited ("Co-op Bank") and ICEA LION Asset Management ("ILAM") in their respective capacity of the outgoing REIT Manager, REIT Trustee and the incoming REIT manager announced that all the conditions precedent in relation to the transfer of the management of the REIT (including the approvals of the Capital Markets Authority and the Competition Authority of Kenya) have been fulfilled, with the result that such transfer became effective on 18 May 2020 (the Effective Date) and has been implemented. ILAM is accordingly now the Manager and Promoter of the REIT.

PROSPECT STATEMENT AND PIPELINE

A property development project utilising part of the vacant land at Greenspan Mall is currently being evaluated. If considered viable, the project will be implemented.

The change of the REIT Manager as detailed above will provide the REIT opportunity to refresh its investment strategy and reposition itself for growth.

REPORT OF THE REIT MANAGER (CONTINUED)
ASSET HOLDINGS VERSUS PRESCRIBED LIMITS

The table below highlights the asset holdings versus the subscribed limits in the investment mandate.

I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	Limit in scheme document %	% as at the reporting date	Highest % level during reporting period	Date of most recent valuation/s and ref. to report detailing valuation
If the REIT is an Islamic REIT percentage of Shariah compliant total. If not 100% then for each category set out below specify % that is Shariah compliant	N/A	N/A	N/A	N/A	N/A	N/A
All direct eligible real estate:						
a) Freehold	None	None	None	None	None	None
b) Leasehold	None	None	None	None	None	None
All indirect eligible real estate:						
a) Freehold held through investee companies or investee trusts	N/A	N/A	N/A	N/A	N/A	N/A
b) Leasehold held through investee companies or investee trusts	None	None	None	Refer to financials	Refer to financials	31.12.2020
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorisation	N/A	75%	None	91%	91%	31.12.2020
Land and cost of construction Regulation 70 Maximum 15% TAV	None	None	None	None	None	None
Cash, Deposits, bonds and money market instruments Regulation 65 (11) Maximum 5% to single issuer, institution, or members of group	5%	0%	5%	0%	0%	31.12.2020
Wholly owned and controlled company which conducts real estate activities Regulation 65 (14) Maximum 10% TAV with REIT securities holder consent	N/A	N/A	N/A	N/A	N/A	N/A
Income producing assets including listed shares in Kenyan property companies and units in Kenyan I-REITs. Regulation 68 (2) Maximum 10% of value of investment and TAV at time of acquisition	10%	0%	10%	0%	0%	None
For an IREIT that has converted from a D-REIT Mortgages or other secured loans etc.; authorised under Regulation 12 provided to purchasers of real estate developed or constructed Regulation 12	N/A	N/A	N/A	N/A	N/A	N/A
Other assets (eligible) include description	None	None	None	None	None	None
Other assets (not eligible) include description	None	None	None	None	None	None

REPORT OF THE REIT MANAGER (CONTINUED)
MEETINGS OF REIT SECURITIES HOLDERS

The fourth Annual General Meeting ("AGM") for REIT securities holders was held on 20 August 2020 via electronic means. The meeting was quorate with 89.2% of the unitholders (by number of units held in the REIT) present in person or by proxy.

The purpose of the meeting was to:

- receive the Annual Report and the Audited Annual Financial Statements for the year ended 31 December 2019;
- note the first and final distribution for the year ended 31 December 2019, of KShs. 135,729,225 (75 cents per unit in issue) as recommended by the REIT Manager and approved by the REIT Trustee;
- note that KPMG continue as Auditors of the REIT;
- ratify the remuneration of the REIT Manager for the financial year ended 31 December 2019 as disclosed in the annual report;
- note the change of REIT Promoter and the change of REIT Manager
- consider and pass a special resolution pursuant to Regulation 89 that the Trust Deed of the REIT be amended by inserting a new clause 33.10 allowing for virtual meetings of unit holders.

The above resolutions were passed by the general meeting.

Other than the above AGM, no other meetings of the REIT unitholders took place during the period under review.

The next AGM is expected to take place on 16 April 2021. The AGM notice and proxy forms will be published closer to the time.

Approval of the financial statements

The REIT Manager's report was approved on behalf of the REIT Manager by:

Andrew Ndegwa	**Einstein Kihanda**
Chairman, ICEA LION Asset Limited Management Limited	Chief Executive Officer, ICEA LION Asset Limited Management Limited

Date: 18 March 2021

REPORT OF THE TRUSTEE

REPORT OF THE TRUSTEE

The Trustee's report is prepared in accordance with Regulation 101(3) and the Fifth Schedule of the REITs Regulations.

1. Confirmation of all matters relating to the title particulars of real estate properties and other assets of the fund

We confirm the below titles particulars for the real estate properties:

- Nairobi Block 82/8759 (No.s F1,F2,F3,F4 & F5) – Property known as Greenspan Mall under the SPV Greenspan Mall Limited;
- L.R. No 37/157 registered as Title No.I.R. 22130 – Property known as Highway House under the SPV Signature International Limited;
- L.R. No. 209/4125 registered as Title No.I.R. 93022 – Property under the SPV Bay Holdings Limited; and L.R No. 3734/1426 (Original Number 3734/917) – Property known as 67 Gitanga Place under the SPV Starling Park Properties LLP.

We confirm that the other assets of the fund are as detailed in the accounts.

Details of other matters:

Requirement under the Fifth Schedule	Trustee's report
a. Any appointment of a secondary disposition Trustee together with details of purpose of the appointment and of any documents executed by the secondary disposition trustee.	There was no appointment to this effect.
b. Any matter arising during the period which has been, or should have been, notified to the Authority pursuant to the Regulations	• There was a change of REIT Manager & promoter following a sale of business between STANLIB Kenya Limited and ICEA LION Asset Management Limited effective 18th May, 2020. The Authority was duly notified and gave consent. • Regulation 103 (1)(a)(ii) requires the REIT Manager to submit the annual report within 3 months of the end of the financial year. Following the COVID 19 pandemic, the Authority gave a 30 - day extension. The REIT Manager was able to submit the report within the extended deadline. • Regulation 72(2) requires the REIT Trustee, on the recommendation of the REIT Manager, to distribute, within 4 months after the end of each financial year a minimum of 80% of the net after tax income. The REIT Trustee, on the recommendation of the REIT Manager, did approve, and the REIT did make, a first and final distribution of Kes 135,729,255 to the unit holders on record as at 30th April, 2020. Due to the challenges posed by the COVID 19 pandemic, the Authority did give a 30-day extension for the distributions to be paid and the REIT made the payments on 26th May, 2020. This was within the 30-day extension granted.

REPORT OF THE TRUSTEE (CONTINUED)

1. Confirmation of all matters relating to the title particulars of real estate properties and other assets of the fund (continued)

Details of other matters (continued):

Requirement under the Fifth Schedule	Trustee's report
c. Any failures by the trustee to comply with the provisions of the scheme documents, the Act or the Regulations and action taken to remedy the failure	There were no failures to this effect.
d. Any action taken by the trustee during the period to protect assets of the trust or the interests of REIT securities holders	The Trustee was notified, kept abreast and participated in the decision-making process in respect to the enforcement of lease terms, distress and recovery of money owing by the anchor tenant at Greenspan Mall. Consequently, the Trustee, upon reviewing the matter in contention and on the recommendation of the REIT Manager, gave consent to demand and pursue arrears and rent due from the Anchor tenant; and defend Greenspan Mall Limited from suits filed by various claimants pertaining to the distress process.
e. Meetings of REIT securities holders convened by the trustee, resolutions put and the outcome of voting.	The Trustee, pursuant to the Capital Market Authority's approval, convened and held the 4th REIT AGM of the securities holders on 20th August 2020 via electronic means where unit holders duly attended and considered the below agenda items as follows; • Considered and approved the Annual Report and the Audited Annual Financial Statements for the financial year ended 31st December 2019. • The unitholders noted and ratified the first and final distribution for the year ended 31st December 2019, of KShs. 135,729,225 (75 cents per unit in issue) as recommended by the REIT Manager, approved by the Trustee and paid to unit holders in May 2020. • The unitholders noted the continuation of KPMG as the REIT auditors having expressed their interest to continue as auditors. The REIT Manager and REIT Trustee had no objection of them continuing as the REIT auditors. • The unitholders ratified the renumeration of the REIT Manager for the financial year ended 31st December 2019 as disclosed in the annual report. • The unitholders noted the assignment & transfer by STANLIB Kenya Ltd to ICEA LION Asset Management Ltd of all rights, obligations & benefits in terms of or in connection with its role as a promoter of ILAM Fahari I-REIT. • The unitholders noted the appointment by the Trustee with the approval of the Capital Markets Authority of ILAM as the REIT Manager of ILAM Fahari I-REIT in place of Stanlib Kenya Ltd pursuant to Regulations 61(1) of Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013. • The unitholders noted and ratified the change of name of the REIT to ILAM Fahari I-REIT from STANLIB Fahari I-REIT following change of promoter. • The unitholders considered and passed a special resolution pursuant to Regulation 89 that the Trust Deed of the REIT be amended by inserting a new clause 33.10 allowing for virtual meetings of unit holders.

REPORT OF THE TRUSTEE (CONTINUED)

2. A summary of the meetings of REIT securities holders called or held during the period, a summary of the purpose of the meeting, resolutions put to the REIT securities holders and of attendees and votes cast.

Due to the challenges posed by COVID 19, the Ministry of Health guidelines on large gatherings, the High Court ruling in *Miscellaneous Application 181 of 2020 (O.S.)* on virtual AGM's; the Authority guided for postponement of AGM's to a later date and allowed for virtual meetings.

Consequently, the Trustee convened the 4th AGM of the securities holders on 20th August 2020 via electronic means. Attendees to the meeting (as noted at the commencement of the meeting) were 214 unitholders in person and 52 in proxy representing 89.2% of units issued. Resolutions put to the unitholders were as above and were voted for unanimously.

3. Trustee's opinion on whether the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and REITs Regulations.

In the Trustee's opinion the REIT Manager-ICEA LION Asset Management Ltd- has managed the scheme in accordance with the provisions of the scheme documents, the Act and the REITs Regulations.

4. Comments by the Trustee on the REIT Manager's report, performance of the REIT Manager or of any other person or other material matter.

Due to the business disruptions caused by the containment measures of COVID-19 pandemic, businesses suffered operating challenges. As a result, the REIT's overall performance was impacted as highlighted in the annual report for the year.

Signed by

Henry Karanja	**The REIT Trustee**
The Compliance Officer	The Co-operative Bank of Kenya Limited

Date: 18 March 2021

COMPLIANCE REPORT

COMPLIANCE REPORT

In accordance with Regulation 101 and the Fifth Schedule of the Capital Markets (Real Estate Investment Trusts)(Collective Investment Schemes) Regulations, 2013, (the Regulations) the Compliance Officer notes the following for the period ended 31 December 2020:

1. ICEA LION Asset Management Limited (The REIT Manager) took over the management of the REIT from STANLIB Kenya Limited (STANLIB) with effect from 18th May, 2020, following approval by the Capital Markets Authority.

2. The REIT Manager is proactively reviewing and monitoring its compliance framework, systems, policies and procedures as well as monitor its risks, implement measures to mitigate their effects and cushion the REIT from adverse effects.

3. In addition to the foregoing and in line with the requirements under part J of the Fifth Schedule of the Regulations, the REIT Manager states as follows for the period under review:

   a. Matters arising during the period which have been, or should have been, notified to the Capital Markets Authority pursuant to the REITs Regulations:

   With the consent of the Trustee, STANLIB Kenya Limited and the REIT Manager made a joint application for;

   i. the approval of the resignation of STANLIB Kenya Limited and the appointment of the current REIT Manager and;

   ii. the assignment and transfer by STANLIB Kenya Limited to the REIT Manager of all rights, obligations and benefits, in terms of or in connection with its role as the promoter and REIT Manager.

   The authority approved this request via their letter dated April 27th, 2020.

   b. Any failures by the REIT Manager, Trustee or any other party to comply with the provisions of the of the scheme documents, the Act or the Regulations and action taken to remedy the failure:

   The REIT published the audited financial statements for the year ended 31st December 2019, due by 31st March 2020 by 30th April 2020; it further made the final distribution of income due by 30th April in the month of May. This was due to the disruption faced in business operations because of the COVID -19 pandemic.

   However, it is worthy to note that the Authority via Circular No: CMA/MRT/003/2020 dated 24th March 2020 granted a one month extension for the finalisation and publication of the audited financial statements from 31st March 2020 to 30th April 2020. This was in light of the business disruption experienced following the announcement of the first cases of COVID -19 in Kenya.

   c. Any action taken by the REIT Manager or which the Trustee was requested to take during the period to protect assets of the trust or the interests of REIT securities holders:

   The REIT Manager advised the Trustee to approve an action for distress for rent, against Tusker Mattresses Limited (Tuskys), by appointing an auctioneer in September 2020 to auction the goods that were within the leased premises in Greenspan Mall; this was with a view to recover the outstanding rent arrears.

   The Trustee approved the action and gave consent to demand and pursue arrears and rent due from Tuskys; and defend Greenspan Mall Limited from suits filed by various claimants pertaining to the distress process.

   d. An update of any matters reported in prior periods and action taken to rectify:

   None.

Signed by:

Olga Omalla

Compliance Officer: ICEA LION Asset Management Limited

Date: 18 March 2021

STATEMENT OF THE REIT MANAGER'S RESPONSIBILITIES

STATEMENT OF THE REIT MANAGER'S RESPONSIBILITIES

The REIT Manager is responsible for the preparation and presentation of the consolidated financial statements of the ILAM Fahari I-REIT set out on pages 67 to 98 which comprise the consolidated statement of financial position as at 31 December 2020, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

The REIT Manager's responsibilities include: determining that the basis of accounting described in Note 2 to these financial statements is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 (the Regulations) and such internal control as the REIT Manager determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The REIT Manager is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the REIT as at the end of the financial period and of the operating results for that period. It also requires the REIT Manager to ensure the REIT keeps proper accounting records which disclose with reasonable accuracy the financial position of the REIT and its profit or loss.

The REIT Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRSs and the requirements of the Regulations. The REIT Manager is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the REIT and of its operating results.

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

The REIT Manager has assessed the REIT's ability to continue as a going concern and has no reason to believe that the REIT will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the REIT Manager on 18 March 2021.

Andrew Ndegwa
Chairman,
ICEA LION Asset Limited
Management Limited

Einstein Kihanda
Chief Executive Officer,
ICEA LION Asset Limited Management
Limited

Date: 18 March 2021

CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

The Trustee has considered and reviewed the consolidated financial statements of the ILAM Fahari I-REIT for the year ended 31 December 2020, and certifies, according to the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013, that these financial statements give a true and fair view of the consolidated statement of the financial position of the REIT as at 31 December 2020 and of the consolidated profit or loss for the year then ended.

Certified on behalf of The Co-operative Bank of Kenya Limited on 18 March 2021 by:

Henry Karanja
Trustee Compliance Officer:
The Co-operative Bank of Kenya Limited

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ILAM Fahari I-REIT (formerly STANLIB Fahari I-REIT) ("the REIT") set out on pages 67 to 98 which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the REIT at 31 December 2020, and the REIT's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRs) and the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 ("the Regulations").

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 Consolidated Financial Statements* section of our report. We are independent of the REIT in accordance with the International Ethics Standards Board for *Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I REIT (Continued)

Report on the audit of the consolidated financial statements (Continued)

Key audit matters (Continued)

Key audit matters	
The key audit matter	**How the matter was addressed**
Valuation of investment property (*See Note 3(c)(i) and Note 11 to the financial statements*)	
Valuation of investment properties is considered a key audit matter because: The REIT owns four investment properties which represent the single largest category of assets on the consolidated statement of financial position as at 31 December 2020. These investment properties are stated at their fair values based on independent external valuations. The valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied in deriving at the capitalisation, discount and terminal yield rates and a small change in the assumptions can have a significant impact to the valuation.	Our audit procedures in this area included, among others: a. Testing the control over management review of assumptions used in valuation of investment property. b. Assessing the REIT's processes for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers. c. Evaluating the qualifications and competence of the external valuers. We also read the terms of engagement of the valuers with the REIT to determine whether there were any matters that might have affected their objectivity or limited the scope of their work. d. Considering the valuation methodologies used. We tested the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. We challenged the capitalisation, discount and terminal yield rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. e. Considering adequacy of the descriptions in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I REIT (Continued)

Report on the audit of the consolidated financial statements (Continued)

Other Information

The REIT Manager is responsible for the other information. The other information comprises the information in the *ILAM Fahari I-REIT (formerly STANLIB Fahari I-REIT) Annual Report and Financial Statements for the year ended 31 December 2020* but does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REIT Manager's responsibility for the consolidated financial statements

As stated on page 59, the REIT Manager is responsible for the preparation of the REIT's consolidated financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Regulations and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the REIT Manager is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the REIT Manager either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

The REIT Manager is responsible for overseeing the REIT's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the REIT Manager.

- Conclude on the appropriateness of the REIT Manager'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 REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I REIT (Continued)

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

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 REIT 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 REIT Manager 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.

We are also required to provide the REIT Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated 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 and regulatory requirements

As required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 we report to you based on our audit, that the compliance reports are in accordance with Regulations.

KPMG

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha - P/1610.

KPMG Kenya

KPMG Kenya
Certified Public Accountants
PO Box 40612-00100
Nairobi, Kenya
Date: 18 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs	2019 KShs
Revenue		**324,669,579**	**353,886,007**
Rental and related income	5	341,156,587	344,346,639
Straight-lining of lease income	12	(16,487,008)	9,539,368
Other income		**22,875,975**	**25,323,607**
Interest income	6	22,412,016	24,996,287
Sundry income	7	463,959	327,320
Operating expenses		**(229,611,646)**	**(225,636,051)**
Property expenses	8	(130,361,698)	(114,334,308)
Fund operating expenses	9	(99,249,948)	(111,301,743)
Increase in fair value of investment property		**30,091,205**	**21,654,685**
Fair value adjustment to investment property	11	13,604,197	31,194,053
Straight-lining of lease income	12	16,487,008	(9,539,368)
Profit for the year		**148,025,113**	**175,228,248**
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders for the year		**148,025,113**	**175,228,248**
Basic earnings per unit (KShs)	10	0.82	0.97
Headline earnings per unit (KShs)	10	0.65	0.85
Supplementary information: Distributable earnings per unit (KShs)	10	0.74	0.80

The notes set out on pages 71 to 98 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

ASSETS	Note	2020 KShs	2019 KShs
Non-current assets			
Investment properties	11	3,481,400,000	3,456,600,000
Fair value of investment property for accounting purposes		3,385,601,287	3,344,314,279
Straight-line lease accrual	12	95,798,713	112,285,721
Property and equipment	13	14,525,608	15,615,047
		3,495,925,608	**3,472,215,047**
Current Assets			
Investment securities	15	150,437,699	238,925,753
Trade and other receivables	16	39,610,337	71,245,082
Cash and cash equivalents	17	197,772,556	96,063,143
		387,820,592	**406,233,978**
TOTAL ASSETS		3,883,746,200	3,878,449,025
EQUITY AND LIABILITIES			
Capital and reserves (Page 69)			
Trust capital	18	3,479,540,745	3,479,540,745
Revaluation reserve	19	140,417,484	126,813,287
Retained earnings		155,780,508	157,088,817
		3,775,738,737	3,763,442,849
Current liabilities			
Trade and other payables	20	**108,007,463**	**115,006,176**
TOTAL EQUITY AND LIABILITIES		3,883,746,200	3,878,449,025

The financial statements set out on pages 67 to 98 were approved and authorised for issue by the REIT Manager and by the Trustee on 18 March 2021 and were signed on their behalf by:

Andrew Ndegwa
Chairman, ICEA LION Asset Management Limited

Einstein Kihanda
Chief Executive Officer, ICEA LION Asset Management Limited

Henry Karanja
Trustee Compliance Officer: The Co-operative Bank of Kenya Limited

The notes set out on pages 71 to 98 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Trust capital KShs	Revaluation reserve KShs	Retained earnings KShs	Total KShs
2020				
Balance at 1 January 2020	3,479,540,745	126,813,287	157,088,817	3,763,442,849
Total comprehensive income				
Profit for the year	-	-	148,025,113	148,025,113
Transfer to non-distributable reserve (Note 19)	-	13,604,197	(13,604,197)	-
Transactions with owners of equity				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
Balance at 31 December 2020	**3,479,540,745**	**140,417,484**	**155,780,508**	**3,775,738,737**

	Trust capital KShs	Revaluation reserve KShs	Retained earnings KShs	Total KShs
2019				
Balance at 1 January 2019	3,479,540,745	95,619,234	148,783,847	3,723,943,826
Total comprehensive income				
Profit for the year	-	-	175,228,248	175,228,248
Transfer to non-distributable reserve (Note 19)	-	31,194,053	(31,194,053)	-
Transactions with owners of equity				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
Balance at 31 December 2019	**3,479,540,745**	**126,813,287**	**157,088,817**	**3,763,442,849**

The notes set out on pages 71 to 98 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs	2019 KShs
Cash flows from operating activities			
Cash generated from operations	21	160,356,536	115,335,771
Net cash inflow from operating activities		**160,356,537**	**115,335,771**
Cash flows from investing activities			
Additions to investment property	11	(11,195,803)	(19,705,947)
Additions to property and equipment	13	(210,150)	(11,543,938)
Net decrease/(increase) in investment securities		88,488,054	(155,116,238)
Net cash generated from/(used in) investing activities		**77,082,101**	**(186,366,123)**
Cash flows from financing activities			
Distribution paid	18	(135,729,225)	(135,729,225)
Net cash outflow from financing activities		**(135,729,225)**	**(135,729,225)**
Net movement in cash and cash equivalents		**101,709,413**	**(206,759,577)**
Cash and cash equivalents at beginning of year		96,063,143	302,822,720
Cash and cash equivalents at end of year	17	**197,772,556**	**96,063,143**

The notes set out on pages 71 to 98 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
Revenue	**224,540,683**	**100,128,896**	**-**	**324,669,579**
Rental and related income	179,005,984	97,580,737	-	276,586,721
Recoveries	56,429,093	8,140,773	-	64,569,866
Straight-lining of lease income	(10,894,394)	(5,592,614)	-	(16,487,008)
Other income	**147,331**	**343,559**	**22,385,085**	**22,875,975**
Interest income	26,931	-	22,385,085	22,412,016
Sundry income	120,400	343,559	-	463,959
Operating expenses	**(114,520,066)**	**(15,841,632)**	**(99,249,948)**	**(229,611,646)**
Property admin expenses (excluding bad debts expense)	(81,198,547)	(16,044,185)	-	(97,242,732)
Bad debts expense	(33,321,519)	202,553	-	(33,118,966)
Fund operating expenses	-	-	(99,249,948)	(99,249,948)
Increase/(decrease) in fair value of investment property	**92,698,591**	**(62,607,386)**	**-**	**30,091,205**
Fair value adjustment to investment property	81,804,197	(68,200,000)	-	13,604,197
Straight-lining of lease income	10,894,394	5,592,614	-	16,487,008
Net profit/(loss) for the year	**202,866,539**	**22,023,437**	**(76,864,863)**	**148,025,113**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
Revenue	**238,645,936**	**115,240,071**	**-**	**353,886,007**
Rental and related income	180,739,594	88,355,460	-	269,095,054
Recoveries	63,709,969	11,541,616	-	75,251,585
Straight-lining of lease income	(5,803,627)	15,342,995	-	9,539,368
Other income	**712,431**	**-**	**24,611,176**	**25,323,607**
Interest income	385,111	-	24,611,176	24,996,287
Sundry income	327,320	-	-	327,320
Operating expenses	**(93,267,179)**	**(21,067,129)**	**(111,301,743)**	**(225,636,051)**
Property admin expenses (excluding bad debts expense)	(93,335,762)	(20,875,605)	-	(114,211,367)
Bad debts expense	68,583	(191,524)	-	(122,941)
Fund operating expenses	-	-	(111,301,743)	(111,301,743)
Increase in fair value of investment property	**17,097,680**	**4,557,005**	**-**	**21,654,685**
Fair value adjustment to investment property	11,294,053	19,900,000	-	31,194,053
Straight-lining of lease income	5,803,627	(15,342,995)	-	(9,539,368)
Net profit/(loss) for the year	**163,188,868**	**98,729,947**	**(86,690,567)**	**175,228,248**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
ASSETS				
Non-current assets	**2,413,788,650**	**1,082,114,218**	**22,740**	**3,495,925,608**
Property and equipment	2,400,000,000	1,081,400,000	-	3,481,400,000
Investment properties	13,788,650	714,218	22,740	14,525,608
Current assets	**43,022,944**	**11,182,470**	**333,615,178**	**387,820,592**
Investment securities	-	-	150,437,699	150,437,699
Trade and other receivables	32,445,724	3,166,982	3,997,631	39,610,337
Cash and cash equivalents	10,577,220	8,015,488	179,179,848	197,772,556
TOTAL ASSETS	**2,456,811,594**	**1,093,296,688**	**333,637,918**	**3,883,746,200**
EQUITY AND LIABILITIES				
Capital and reserves	**316,129,172**	**(51,881,449)**	**3,511,491,014**	**3,775,738,737**
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	80,111,688	43,718,551	31,950,269	155,780,508
Revaluation reserve	236,017,484	(95,600,000)	-	140,417,484
Current liabilities				
Trade and other payables	**64,137,217**	**34,697,255**	**9,172,991**	**108,007,463**
TOTAL EQUITY AND LIABILITIES	**380,266,389**	**(17,184,194)**	**3,520,664,005**	**3,883,746,200**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
ASSETS				
Non-current assets	**2,321,694,181**	**1,150,494,439**	**26,427**	**3,472,215,047**
Investment properties	2,307,000,000	1,149,600,000	-	3,456,600,000
Property and equipment	14,694,181	894,439	26,427	15,615,047
Current assets	**73,844,344**	**6,808,117**	**325,581,517**	**406,233,978**
Investment securities	-	-	238,925,753	238,925,753
Trade and other receivables	62,836,212	4,452,976	3,955,894	71,245,082
Cash and cash equivalents	11,008,132	2,355,141	82,699,870	96,063,143
TOTAL ASSETS	**2,395,538,525**	**1,157,302,556**	**325,607,944**	**3,878,449,025**
EQUITY AND LIABILITIES				
Capital and reserves	**254,594,446**	**9,458,744**	**3,499,389,659**	**3,763,442,849**
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	100,381,159	36,858,744	19,848,914	157,088,817
Revaluation reserve	154,213,287	(27,400,000)	-	126,813,287
Current liabilities				
Trade and other payables	**71,631,468**	**30,029,991**	**13,344,717**	**115,006,176**
TOTAL EQUITY AND LIABILITIES	**326,225,914**	**39,488,735**	**3,512,734,376**	**3,878,449,025**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

The ILAM Fahari I-REIT (formerly STANLIB Fahari I-REIT) ("the REIT") is a closed ended property investment fund licensed under the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 ("the Regulations") and listed on the Nairobi Securities Exchange. The REIT is managed by ICEA LION Asset Management Limited ("the REIT Manager").

The consolidated financial statements of the REIT for the year ended 31 December 2020 comprise the REIT and its subsidiaries and Limited Liability Partnership (LLP). The address of its registered office is as follows:

4th Floor, ICEA LION Centre
Chiromo Road
P.O. Box 46143 – 00100
GPO Nairobi, Kenya

The REIT wholly owns the following property investment subsidiaries and Limited Liability Partnership (LLP):

- Greenspan Mall Limited
- Bay Holdings Limited
- Signature International Limited
- Starling Park Properties LLP

2. BASIS OF PREPARATION

a. Statement of compliance

The REIT's financial statements comprise the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Regulations. For the Regulation reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position, the profit and loss account is presented in the statement of profit or loss and other comprehensive income, the source and use of funds is represented by the statement of cash flows.

Details of the REIT's significant accounting policies are included in Note 3.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the measurement of investment property that have been measured at fair value.

c. Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs) which is also the REIT's functional currency.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions are based on the REIT Manager's best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

2. BASIS OF PREPARATION (Continued)

d. Use of estimates and judgments (Continued)

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

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

e. Going concern

The REIT Manager has assessed the REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the REIT Manager is not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

f. Changes in significant accounting policies

A number of other new standards were effective from 1 January 2020 but they do not have a material effect on the REIT's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

The annual financial statements incorporate the consolidated financial statements of the REIT and all subsidiaries and LLP which are controlled by it. The subsidiaries are shown in Note 22 to the financial statements. Control exists when the investor has the power over the investee, exposure or right to receive variable returns and ability to use the power to affect the returns.

The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. The results of subsidiaries and LLP are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting has been adopted to account for the cost of acquisition of the investments.

Cost comprises the fair value of any assets transferred, liabilities or obligations assumed and equity instruments issued. Any bargain purchase gain is recognised in profit or loss immediately. Transaction costs that the REIT incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The accounting policies used are consistent within all subsidiaries and the REIT. Adjustments are made when necessary to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those of the REIT.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Transactions which result in changes in ownership levels, where the REIT has control of the subsidiary both before and after the transaction are regarded as equity transactions and are recognised directly in the statement of changes in equity. The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

b. Financial instruments

i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the REIT becomes a party to the contractual provisions of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial instruments (Continued)

i. Recognition and initial measurement - continued

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI)– debt investment;
- fair value through other comprehensive income – equity investment
- fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the REIT changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

Financial assets – Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the REIT's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial instruments (continued)

ii. Classification and subsequent measurement – continued

Financial assets – Business Model Assessment (continued)

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the REIT's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest

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

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

— contingent events that would change the amount or timing of cash flows;

— terms that may adjust the contractual coupon rate, including variable-rate features;

- prepayment and extension features; and
- terms that limit the REIT's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment Interest losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets subsequently measured at fair value. Interest income calculated using effective interest method, foreign exchange gains and losses, and impairment losses are recognized in the P&L. Other net gains and losses are recognized in the OCI. On derecognition , gains and losses accumulated in the OCI are reclassified to P&L.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to P&L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial instruments (continued)

ii. Classification and subsequent measurement – continued

Financial liabilities — Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

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

The REIT enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The REIT derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The REIT also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when the REIT currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

c. Tangible assets

i. Investment property

Investment property comprises land, buildings and equipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation and are initially recorded at cost, including transaction costs on acquisition. Additional expenditure on investment properties is capitalised when it is probable that the future economic benefits will flow to the REIT. All other subsequent expenditure on the properties is expensed in the period in which it is incurred. Investment property held to earn rental income and for capital appreciation and not occupied by the REIT is classified as investment property.

Investment properties are subsequently measured at fair value, representing open market value, as determined by registered external valuers as at the financial year end. Open market value is determined by the valuer using a market approach and cost approach. The market approach comprises the discounted cash flow method or a net income capitalisation method. Refer to Note 11 to the financial statements for key judgements used in the valuations. Any gains or losses are included in profit or loss.

Unrealized gains on revaluation of investment property are transferred from retained earnings to a non-distributable reserve. Likewise, unrealized losses on revaluation of investment property are transferred from retained earnings and set

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Tangible assets - continued

i. i. Investment property - continued

off against existing non-distributable reserves to the extent that such reserves are available for the particular investment property. Realised gains may be distributed.

In the alternative, any realised gains may be retained and reinvested in income

producing real estate provided that if they are not invested within a period of two years of realization, such realised gains shall be distributed within two months of the second anniversary of realization.

Investment property held under an operating lease relates to long-term land leases and is recognised in the REIT's statement of financial position at its fair value. This accounting treatment is consistently applied for all such long-term land leases.

ii. Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the REIT and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation on property and equipment is calculated using the following annual rates:

Furniture and fittings	–	12.5% on a reducing balance basis
Borehole equipment	–	10% on straight-line basis
Borehole infrastructure	–	4% on a straight-line basis
Office equipment	–	12.5% on a straight-line and reducing balance basis; and
	–	20% on a straight line basis
	–	10% on a straight line basis

The assets useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. Such gains or losses are recognised in profit or loss.

d. Impairment of assets

i. Non-derivative financial assets

Financial instruments and contract assets

The REIT recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The REIT measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

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

The REIT assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Impairment of assets (continued)

i. Non-derivative financial assets – continued

Financial instruments and contract assets - continued

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the REIT is exposed to credit risk.

Measurement of ECLs

The REIT's non-derivative financial assets have short durations. Accordingly, discounting of cash shortfalls to reflect the time value of money when measuring ECL's is not generally required.

Credit impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the REIT on terms that the REIT would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the REIT has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For tenant arrears, the REIT has a policy that where a tenant has absconded, or is declared insolvent, is in liquidation or has ceased trading for four months or longer and is thus unable to service the debt, that such arrears are written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the REIT's procedures for recovery of amounts due.

ii. Non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU's). Goodwill arising from a combination is allocated to CGUs or groups of CGU's that are

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Impairment of assets (continued)

ii. Non-financial assets - continued

expected to benefit from the synergies of the combination.
The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

e. Revenue recognition

Revenue comprises gross rental and related income including all recoveries from tenants, net of Value Added Tax (VAT). Rental and related income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised under other income in profit or loss using the effective interest rate method.

f. Property letting commission and tenant installations

When considered material, letting commissions and tenant installations are written off over the period of the lease. Letting commissions paid in respect of new developments are capitalised to the cost of the property.

g. Leases

The REIT has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.
At inception of a contract, the REIT assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the REIT uses the definition of a lease in IFRS 16.

At inception or on modification of a contract that contains a lease component, the REIT allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

Properties leased out under are included in investment properties in the statement of financial position as per Note 11. Lease income is recognised over the term of the lease on a straight-line basis.

h. Finance income and costs

Finance income or costs for the REIT comprises interest income and expenses. Interest income is recognised under other income in profit or loss. Interest expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised under finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the REIT reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

i. Non-distributable reserve

The non-distributable reserve relates to items that are not distributable to unitholders. This reserve comprises net unrealized fair value adjustments on the revaluation of investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Taxation

Tax exemption

The REIT is exempt from income tax as per section 20(1)(c) of the Kenyan Income Tax Act. Accordingly, no income tax is accounted for in the REIT. All income generated and distributed by the REIT is taxable in the hands of the unitholders. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations are exempt from income tax in line with section 20(1)(d) of the Income Tax Act as introduced by the Finance Act No.23 of 2019. Accordingly, no income tax is accounted for in these subsidiaries and LLP from the date of acquisition by the REIT.

The REIT is not liable for Capital Gains Tax on the disposal of directly held investment properties in terms of the Kenyan Income Tax Act; accordingly no deferred tax is provided on the revaluation of the properties. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations are exempt from Capital Gains Tax in line with section 20(1)(d) of the Income Tax Act. Accordingly, no deferred tax is provided on the revaluation of the properties in these subsidiaries from the date of acquisition by the REIT.

k. Dividend distribution

The REIT has an obligation to distribute to the unitholders, within four months after the end of each financial year, at least eighty percent of net income after tax from sources other than realized gains from disposal of investment property. The REIT may distribute more than once annually. Distributions to unitholders are recognised as a liability in the period in which they are declared once the amount of distribution has been calculated.

l. Trust capital

Units are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction from the proceeds.

m. Foreign currency

A foreign currency transaction is recorded, on initial recognition in Kenya Shillings, by applying to the foreign currency amount the spot exchange rate between the Kenya Shillings and the foreign currency at the date of the transaction.

The REIT's functional and reporting currency is Kenya Shillings.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Kenya Shillings by applying to the foreign currency amount the exchange rate between the Kenya Shillings and the foreign currency at the date of the cash flow.

n. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The REIT has determined that its chief operating decision maker is the REIT Manager.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Segment reporting (continued)

The REIT operates in the following primary business segments:

i. Retail – comprising retail outlets;
ii. Office – comprising office buildings and office parking;
iii. Industrial – industrial buildings such as warehouses and factories;
iv. Financial assets – comprising at amortised cost, at FVOCI and finally FVTPL at a REIT level.

In certain instances, a building might comprise a combination of office and industrial or retail and office. Where each component is significant in size for segment reporting purposes, the building is classified as a combination of both components; otherwise the dominant component would determine the classification.

o. Earnings per unit

Basic and diluted earnings per unit data for ordinary units are presented in the financial statements. Basic earnings per unit is calculated by dividing the profit or loss attributable to ordinary unit holders of the REIT by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit is determined by adjusting the profit or loss attributable to ordinary unit holders and the weighted average number of ordinary units outstanding for the effects of all dilutive potential ordinary units, if any.

p. 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 in the principal or, in its absence, the most advantageous market to which the REIT has access at that date. The fair value of a liability reflects its non-performance risk.

The REIT measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the REIT uses the valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the REIT measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the REIT determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

q. New standards and interpretations

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, and have not been applied in preparing these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. New standards and interpretations (continued)

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

Covid Related Rent Concessions (amendments to IFRS16)	1 June 2020
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Onerous Contracts – Cost of Fulfilling a contract (Amendments to IAS 37)	1 January 2022
Annual improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

The REIT Manager has assessed that the adoption of these new standards and they are not expected to have a significant impact on the financial statements of the REIT.

4. KEY JUDGMENTS AND ESTIMATES

Key judgments and sources of estimation uncertainty

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. The estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the statement of financial position date as well as affecting the reported income and expenses for the period.

Although estimates are based on management's best knowledge and judgment of current facts as at the statement of financial position date, the actual outcome may potentially differ significantly from these estimates.

a. Valuation of Investment property

The valuation of investment property requires judgment in the determination of future cash flows and the appropriate discount rate to discount those future cash flows as well as the appropriate capitalisation rate. Future cash flows are based on the budgeted contractual rental income and budgeted expenditure. The discount rate and capitalisation rates are informed by market conditions and unique or specific attributes of the investment property. Changes in assumptions of future cash flows, discount rates and capitalisation rates have a significant impact on the value of investment property. Management relies on the use of experts in determining the market value of investment properties and interrogates the assumptions applied by the experts to assess their reasonableness.

The valuer adopted a market capitalisation rate ranging from 11.5% to 13.5% (2019: 8.5% to 9.5%) in capitalizing the future cash flows to arrive at the market value of the property. These have been set out in Note 11.

b. Impairment of financial assets

At the end of each reporting period, the REIT reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. An Expected Credit Loss (ECL) model to assess any need for impairment of financial assets. Under the ECL model, the REIT calculates the allowance for credit losses by considering on a discounted basis, the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring.

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

- Determining criteria for significant increase in credit risk;
- Determining the default period;
- 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 the associated ECL;

The carrying amount of impaired receivables is set out in Note 24(b)(ii).

c. Property and equipment

Critical estimates are made by the REIT Manager in determining depreciation rates for property and equipment. The rates used are set out in Note 3(c)(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

4. KEY JUDGMENTS AND ESTIMATES (Continued)

e. Taxation

As disclosed in Note 3(j), the Kenya Revenue Authority (KRA) provided an opinion on REIT owned subsidiaries tax exemptions to November 2017 and the Finance Act No. 23 of 2019 further clarified this issue. The REIT has applied this policy throughout the period with regards to its subsidiaries.

5. RENTAL AND RELATED INCOME

	2020 KShs	2019 KShs
Rental income*	276,586,722	263,920,053
Recoveries	61,406,180	75,251,585
Promotional income	3,163,685	5,175,001
	341,156,587	**344,346,639**

*The rental income includes revenue from parking and exhibition in addition to the contractual rental revenue in line with leases.

6. INTEREST INCOME

	2020 KShs	2019 KShs
Interest on fixed deposits and treasury bills	20,120,170	22,203,678
Interest on call deposits	2,291,846	2,792,609
	22,412,016	**24,996,287**

7. SUNDRY INCOME

	2020 KShs	2019 KShs
Bad debts recovered	**463,959**	**327,320**

8. PROPERTY EXPENSES

The following items are included in property expenses:

	2020 KShs	2019 KShs
Property administration expenses		
Movement in bad debts provision	33,118,966	122,941
Electricity and water	20,107,339	26,901,309
Property management fees	13,557,638	14,192,834
Irrecoverable withholding tax	13,901,383	16,471,895
Gardening and cleaning	11,616,847	13,060,748
Repairs and maintenance	6,501,672	9,597,276
Security	8,749,694	8,359,000
Insurance	5,866,480	5,902,099
Advertising and sales promotion	3,701,218	4,729,637
Legal and professional fees	1,978,000	683,800
Property valuation fees	1,933,334	1,732,000
Letting fees	600,376	1,599,297
Environmental audit	305,900	190,400
Licences and permits	242,095	152,000
Waste removal	26,000	2,032,200
	122,206,942	**105,727,436**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

8. PROPERTY EXPENSES (Continued)

	2020 KShs	2019 KShs
Other operating property expenses		
Audit fees – current period	3,624,298	3,188,995
– service charge audit	859,425	723,261
Consultancy fees	500,000	1,110,780
Depreciation	1,295,902	1,066,284
Sundry expenses	716,986	631,908
Other professional fees	103,500	451,146
Rent and rates	410,700	418,170
Postage and telephone	369,735	183,495
Subscription	92,157	48,732
Staff expenses	70,712	61,078
Bank charges	47,783	77,253
Printing and stationery	41,539	59,046
Penalties	20,000	20,132
Cinema launch expenses	2,019	566,592
	8,154,756	**8,606,872**
	130,361,698	**114,334,308**

9. FUND OPERATING EXPENSES

The following items are included in fund operating expenses:	2020 KShs	2019 KShs
Asset management fees	63,000,000	70,000,000
Trustee fees	24,395,834	23,620,012
Professional and other fees	4,520,504	4,085,897
Audit fees	3,323,490	3,060,750
Public relations and marketing	2,727,066	8,400,453
Licenses	1,217,347	1,505,523
Bank charges	37,020	10,200
Consultancy	25,000	25,485
Depreciation	3,687	3,073
Business acquisition expenses	-	300,000
Legal fees	-	277,850
Sundry expenses	-	12,500
	99,249,948	**111,301,743**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

10. BASIC AND HEADLINE EARNINGS PER UNIT

	2020 KShs	2019 KShs
Basic earnings – comprehensive income attributable to unit holders for the period	148,025,113	175,228,248
Adjusted for:		
Fair value adjustment to investment properties (including straight-line lease accrual movement)	(30,091,205)	(21,654,685)
Headline earnings	**117,933,908**	**153,573,563**
Adjusted for:		
Straight-line lease accrual movement	16,487,008	(9,539,368)
Distributable earnings	**134,420,916**	**144,034,195**
Distribution to unitholders (Note 18)	**108,583,380**	**135,729,225**
Distributable earnings per unit (KShs)	0.74	0.80
Distribution per unit (KShs)	0.60	0.75
Basic earnings and diluted earnings per unit (KShs)	0.82	0.97
Headline earnings per unit (KShs)	0.65	0.85
Weighted average units in issue (units)	180,972,300	180,972,300
Units in issue at the end of the period (units)	**180,972,300**	**180,972,300**

11. INVESTMENT PROPERTIES

	2020 KShs	2019 KShs
At 1 January	3,456,600,000	3,365,700,000
Additions - development expenditure	-	19,705,947
- capital expenditure	11,195,803	-
Fair value adjustment to investment properties	13,604,197	31,194,053
Transfer from asset held for sale (Note 14)	-	40,000,000
At 31 December	**3,481,400,000**	**3,456,600,000**

The investment properties were independently valued by Jones Lang LaSalle Kenya (Pty) Limited as at 31 December 2020 (2019: Knight Frank Valuers Limited and Crystal Valuers Limited). The valuers are registered and licensed by the Valuers Registration Board of Kenya and have the relevant experience and knowledge of valuing the various properties in the portfolio.

In determining the market value of the investment properties, the valuers used the discounted cash flow methodology where a discount rate (capitalisation rate) is applied to a series of cash flows for future periods to discount them to a present value.

The valuers also used the cost approach. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Cost of land was based on the market rates prevailing in the areas of study. Cost of construction was obtained from cost manuals as provided by quantity surveyors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

11. INVESTMENT PROPERTIES (Continued)

Unobservable inputs

At the reporting date the following assumptions and unobservable inputs had been applied by the valuer in determining the fair value of the property portfolio:

	2020 %	2019 %
Retail sector		
Term yield	12.5	9.50
Reversionary yield	9.25	11.50
Discount rate	12.5	9.50
Office and light industrial		
Term yield	11.5 – 13.5	8.50 – 9.00
Reversionary yield	9.25 – 9.75	9.00 – 10.58
Discount rate	11.5 – 13.5	8.50 – 9.00

The capitalisation rates were computed by the valuer taking into account the market data obtained from the field research undertaken, including comparable sales. This was adjusted to reflect the term and reversion based on the property lettings.

12. STRAIGHT-LINE LEASE ACCRUAL

	2020 KShs	2019 KShs
At 1 January	112,285,721	102,746,353
Change in straight-line lease accrual through profit or loss	(16,487,008)	9,539,368
At 31 December	**95,798,713**	**112,285,721**

The straight-line lease income accrual relates to the smoothing of the lease rental income over the contract period of the leases.

13. PROPERTY AND EQUIPMENT

2020	Furniture and equipment KShs	Other equipment KShs	Total KShs
Cost			
At start of the year	5,442,382	13,173,769	18,616,151
Additions		210,150	210,150
At end of year	**5,442,382**	**13,383,919**	**18,826,301**
Accumulated depreciation			
At start of year	2,278,702	722,402	3,001,104
Charge for the year	395,460	904,129	1,299,589
At end of year	**2,674,162**	**1,626,531**	**4,300,693**
Net book value as at 31 December 2020	**2,768,220**	**11,757,388**	**14,525,608**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

13. PROPERTY AND EQUIPMENT (Continued)

2019	Furniture and equipment KShs	Other equipment KShs	Total KShs
Cost			
At start of the year	5,442,382	1,629,831	7,072,213
Additions	-	11,543,938	11,543,938
At end of year	**5,442,382**	**13,173,769**	**18,616,151**
Accumulated depreciation			
At start of year	1,826,748	104,999	1,931,747
Charge for the year	451,954	617,403	1,069,357
At end of year	**2,278,702**	**722,402**	**3,001,104**
Net book value as at 31 December 2019	**3,163,680**	**12,451,367**	**15,615,047**

14. ASSET HELD FOR SALE

In November 2018, REIT Manager and the Trustee committed to a plan to sell the investment property. Accordingly, the property was presented as an asset held for sale in the 2018 financial year. During the year, the strategy changed from sale to letting. As a result, the property has been reclassified as investment property.

	2020 KShs	2019 KShs
At 1 January	-	40,000,000
Transfer to investment property (Note 11)	-	(40,000,000)
Transfer from investment property (Note 11)	-	-
At 31 December	-	-

15. INVESTMENT SECURITIES

	2020 KShs	2019 KShs
Fixed deposits	**150,437,699**	**238,925,753**

Fixed deposits included in investment securities include fixed deposits with original maturities longer than 90 days. Fixed deposits are invested in top tier banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

16. TRADE AND OTHER RECEIVABLES

	2020 KShs	2019 KShs
Trade receivables	44,667,219	31,556,505
Service charge debtors	7,181,151	16,330,081
Less: Provision for doubtful debts	(36,506,218)	(3,387,251)
Net trade receivables	**15,342,152**	**44,499,335**
Value Added Tax (VAT) receivable	11,539,959	13,481,626
Prepayments	5,337,798	5,168,969
Sundry debtors	7,390,428	8,095,152
	39,610,337	**71,245,082**

The carrying amounts of trade and other receivables approximate their fair value due to the short-term nature of these financial assets and liabilities. All amounts under trade and other receivables are denominated in Kenya Shillings.

17. CASH AND CASH EQUIVALENTS

	2020 KShs	2019 KShs
Fixed deposits	146,459,398	50,163,013
Call deposits	18,430,635	27,604,800
Cash at bank	32,875,407	18,232,508
Cash at hand	7,116	62,822
	197,772,556	**96,063,143**

Fixed deposits included in cash and cash equivalents include fixed deposits with original maturities of 90 days or less. Fixed and call deposits are invested with top tier banks. For the purposes of the cash flow statement, cash and cash equivalents comprises of cash in hand and deposits held with banks with maturities as described above.

18. TRUST CAPITAL

	2020 KShs	2019 KShs
(a) Authorised		
625,000,000 units at a nominal value of KShs. 20 per unit less capitalised unit issue costs	**12,500,000,000**	**12,500,000,000**
(b) Issued and paid		
180,972,300 units at a nominal value of KShs. 20 per unit net of unit issue costs of KShs. 139,905,255	**3,479,540,745**	**3,479,540,745**

The issued units are under the control of the REIT Manager and the Trustee, subject to the provisions of the Trust Deed, the Regulations and the Listing Requirements of the Nairobi Securities Exchange.

Distribution

On 20 August 2020, the unitholders approved the declaration and payment of a distribution of KShs. 135,729,225 in relation to the year ended 31 December 2019.

After the reporting date for the year ended 31 December 2020, the following distribution was recommended by the REIT Manager and approved by the Trustee:

	2020 KShs	2019 KShs
KShs 0.60 (2019: KShs. 0.75) distribution per qualifying unit	**108,583,380**	**135,729,225**

The distribution of KShs. 108,583,380 has not been recognised as a liability as at 31 December 2020 as it was declared after the end of the financial reporting period (2019: KShs. 135,729,225).

The unitholders are entitled to receive a distribution as declared from time to time and are entitled to one vote per unit at general meetings of the REIT. All unitholders rank equally with regard to the REIT's residual assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

19. REVALUATION RESERVE

	2020 KShs	2019 KShs
At 1 January	126,813,287	95,619,234
Fair value adjustment on investment properties (Note 11)	13,604,197	31,194,053
At 31 December	**140,417,484**	**126,813,287**

The revaluation reserve relates to the revaluation surplus and deficit on investment properties. The reserve is non-distributable.

20. TRADE AND OTHER PAYABLES

	2020 KShs	2019 KShs
Trade payables	9,700,567	8,248,003
Tenant deposits	62,455,942	58,663,694
Accruals	25,051,044	35,112,282
Other payables	10,799,910	12,982,196
	108,007,463	**115,006,176**

21. CASH GENERATED FROM OPERATIONS

	2020 KShs	2019 KShs
Net profit for the year	**148,025,113**	**175,228,248**
Adjusted for:		
Depreciation (Note 13)	1,299,589	1,069,357
Fair value adjustment to investment property (Note 11)	(13,604,197)	(31,194,053)
	135,720,505	**145,103,552**

21. CASH GENERATED FROM OPERATIONS (Continued)

	2020 KShs	2019 KShs
Working capital changes in:		
Trade and other receivables	31,634,744	(16,096,309)
Trade and other payables	(6,998,713)	(13,671,472)
	24,636,031	**(29,767,781)**
Cash generated from operations	**160,356,536**	**115,335,771**

22. RELATED PARTY TRANSACTIONS AND BALANCES

a. Identification of related parties

STANLIB Kenya Limited is the authorised Manager of the REIT in terms of the Regulations and the Trust Deed. STANLIB Kenya Limited also played the role of Promoter of the REIT ahead of its listing on the Nairobi Securities Exchange. STANLIB Kenya Limited is part of the Liberty Group, a financial services group based in South Africa, with a strong focus in life insurance, asset management, and short-term insurance businesses in South Africa and the rest of Africa. STANLIB Kenya Limited is 100% owned by Liberty Holdings Limited.

ICEAL LION Asset Management Limited is the current manager of the REIT having replaced STANLIB Kenya Limited on 18 May 2020. The transaction was approved by the Capital Markets Authority after meeting all conditions precedent.

The Co-operative Bank Kenya Limited is the authorised Trustee of the REIT in terms of the Regulations and the Trust Deed.

As disclosed in the information memorandum of the REIT, the REIT Manager and Trustee earn a management fee and custodial fee respectively, for services rendered to the REIT.

The REIT has invested in the entities below which are wholly owned subsidiaries and Limited Liability Partnership (LLP):

i. Greenspan Mall Limited
ii. Bay Holdings Limited
iii. Signature International Limited
iv. Starling Park Properties LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

23. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

b. Related party transactions

	2020 KShs	2019 KShs
Asset management fee paid to STANLIB Kenya Limited	23,499,607	70,000,000
Asset management fee paid to ICEA LION Asset Management Limited	39,500,393	-
Trustee and custodial fees paid to Co-operative Bank Kenya Limited	24,395,834	23,620,012
Other administration fees paid to Co-operative Bank of Kenya Limited for cheque writing fees	919,980	879,883
Bank charges	84,802	87,453

STANLIB Kenya Limited and Liberty Group Limited held the following units in the REIT as at 31 December 2020 and 31 December 2019. These were previously subjected to a three-year lock-in period which expired at end of 2018.

Holder's name	Number of units	% Holding
STANLIB Kenya Limited	18,384,300	10.16
Liberty Group Limited	7,700,700	4.26
Total	**26,085,000**	**14.42**

c. Related party balances

At 31 December, the REIT had the following cash balances held with The Co-operative Bank of Kenya Limited:

Bank account name	Entity	2020 KShs	2019 KShs
Investment account - fixed deposits	REIT	50,000,000	142,000,000
Investment account - call deposits	REIT	10,000,000	8,800,000
Investment account	REIT	14,289,815	4,932,056
STANLIB REIT Rent Coll A/C - Greenspan Mall	Greenspan Mall Limited	3,472,423	4,084,208
Excellerate Kenya Greenspan Mall Account	Greenspan Mall Limited	7,097,681	6,861,102
Starling Park Service charge account	Starling Park Properties LLP	5,218,599	463,184
STANLIB REIT Rent Coll A/C – Signature	Signature International Limited	37,040	391,958
STANLIB REIT Rent Coll A/C - Bay Holdings	Bay Holdings Limited	2,759,850	1,500,000
Total		**92,875,408**	**169,032,508**

23. LEASES

Leases as lessor

Operating lease

The REIT leases out its investment property. The REIT has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Contractual rental income recognised by the REIT during the year ended 31 December 2020 was KShs. 275,263,724 (2019: KShs. 267,423,832).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

24. LEASES (Continued)

Operating lease (Continued)

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating leases under IFRS 16	2020 KShs
	235,923,236
Less than one year	288,468,662
One to two years	163,873,003
Two to three years	50,389,674
Three to four years	12,800,246
Four to five years	21,681,659
More than five years	235,923,236
Total	**773,136,479**

	2019 KShs
Less than one year	264,462,486
One to two years	279,052,615
Two to three years	266,768,036
Three to four years	163,873,003
Four to five years	50,389,674
More than five years	33,743,845
Total	1,058,289,659

24. RISK MANAGEMENT

a. Risk governance structures, roles and responsibilities

The Board of Directors of the REIT Manager is primarily responsible for ensuring the REIT's activities are within the adopted risk management framework of the REIT.

b. Financial risk management

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the REIT does not hedge any risks.

Financial risk management is carried out under policies approved by the REIT Manager.

i. Market risk

Foreign exchange risk

Foreign exchange risk arises from assets and liabilities denominated in foreign currency. There were no foreign currency denominated balances as at 31 December 2020.

Price risk

The REIT does not hold any financial instruments subject to price risk.

Cash flow and fair value interest rate risk

The REIT holds interest accruing financial assets and is thus exposed to interest rate risk. The REIT invested in call and fixed deposits during the year under review. These investments generated a combined weighted average fixed interest rate of 7.2% in the current year (2019: 8.6%).

Sensitivity analysis

During the year, if the interest rate at that date had been 1% lower/higher, with all other variables held constant, net profit for the year would have been KShs. 224,120 (2019: KShs. 249,963) lower/higher, arising mainly as a result of lower/higher interest income on cash deposits at banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

24. RISK MANAGEMENT (Continued)

b. Financial risk management (continued)

i. Market risk (continued)

Sensitivity analysis (Continued)

The REIT Manager manages interest rate risks by monitoring interest rates on a regular basis. There were no borrowings or loans outstanding during the year under review which attracted interest exposure to the entity.

ii. Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the REIT to incur a financial loss.

The REIT is exposed to credit risk on its financial assets, i.e. trade and other receivables and cash. The risk of tenant default is managed through conducting tenant credit worthiness checks and the collection and maintenance of security deposits prior to tenants taking occupation.

Where the recoverability of receivables is doubtful, a provision for doubtful debts is raised, and where it is certain that a receivable is not collectible, it is impaired, in both cases, net of security deposits held. Cash is invested with financial institutions with a good quality credit record.

The gross amount that best represents the REIT's maximum exposure to credit risk at 31 December is made up as follows:

	2020 KShs	2019 KShs
Trade receivables (Note 16)	44,667,219	31,556,505
Service charge debtors (Note 16)	7,181,151	16,330,081
Sundry debtors (Note 16)	7,390,428	8,095,152
Investment securities (Note 15)	150,437,699	238,925,753
Cash and cash equivalents less cash in hand (Note 17)	197,765,440	96,000,321
	407,441,937	**390,907,812**

Collateral is held in respect of trade receivables comprising tenant security deposits.

Debtors ageing

At 31 December 2020, the ageing of the trade receivables was as follows:

	2020 KShs	2019 KShs
Neither past due or impaired	1,160,166	2,153,731
Past due 1 – 30 days	1,787,683	2,318,832
Past due 31 – 90 days	33,051,925	23,893,719
Past due 91 – 120 days	8,667,445	3,190,223
	44,667,219	**31,556,505**

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each customer, the demographics of the REIT's customer base, including the default risk of the industry and country in which customers operate. The REIT has established a credit policy under which each new customer is analysed individually for credit worthiness acceptance. The REIT has a debt provisioning policy that represents its estimate of expected losses in respect of trade and other receivables.

Collateral is held in respect of the trade receivables in the form of cash deposits totalling KShs. 62,455,942 and bank guarantees amounting to KShs 2,424,412 is as at 31 December 2020 (2019: cash deposit – KShs 58,663,694 and bank guarantees – KShs 2,424,412)

The REIT utilizes the Moody's probability of default factor for the retail industry of 7% to determine the expected credit losses. Where the expected credit loss is higher, a specific provision greater than the 7% is applied as applicable.

The REIT Manager believes that the unimpaired amounts outstanding for longer than 30 days are still collectible in full based on the extensive analysis of tenant credit risk

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

24. RISK MANAGEMENT (Continued)

b. Financial risk management (Continued)

ii. Credit risk *(continued)*

and payment behaviours of tenants. The REIT Manager further believes that adequate provisions have been raised against tenant debtors considered doubtful.

Movement in provision for doubtful debts

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2020 KShs	2019 KShs
Balance at the beginning of the period	3,387,251	3,477,170
Movement in provision for bad debts (Note 8)	33,118,967	122,941
Write offs during the year	-	(212,860)
Balance at 31 December (Note 16)	**36,506,218**	**3,387,251**

During the year under review, none of the bad debts were written off (2019: KShs. 212,860).

i. Liquidity risk

Liquidity risk is the risk that the REIT, although solvent is not able to meet its payment obligations as they fall due (funding liquidity risk), or is only able to do so at materially disadvantageous terms (market liquidity risk).

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the REIT's liquidity reserves on the basis of expected cash flow.

	Less than one year KShs
As at 31 December 2020:	
Trade payables and accrued expenses (Note 20)	**108,007,463**
As at 31 December 2019:	
Trade payables and accrued expenses (Note 20)	**115,006,176**

c. Fair value hierarchy

i. Determination of fair value

The REIT has not disclosed the fair values of short-term financial assets and short-term financial liabilities since their fair values approximate to the carrying amounts as shown in the statement of financial position.

ii. Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and other agency securities Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

24. RISK MANAGEMENT (Continued)

c. Fair value hierarchy (continued)

ii. Valuation hierarchy

The table below shows the classification of non-financial assets held at fair value into the valuation hierarchy set out below as at 31 December.

2020 in KShs	Level 1	Level 2	Level 3	Total
Assets				
Investment property	-	-	3,481,400,000	3,481,400,000
Total assets	-	-	**3,481,400,000**	**3,481,400,000**
2019 in KShs				
Assets				
Investment property	-	-	3,456,600,000	3,456,600,000
Total assets	-	-	**3,456,600,000**	**3,456,600,000**

Details of changes in valuation techniques

There have been no changes in the valuation techniques during the period under review. Investment property was fair valued using the discounted cash flow and cost approaches. Refer to Note 11 to the financial statements.

25. CAPITAL COMMITMENT

The REIT had the following capital commitments in respect of building projects authorised and contracted but not yet paid:

	2020 KShs	2019 KShs
Security improvement equipment	-	10,754,765
	-	**10,754,765**

26. CONTINGENT LIABILITIES

As at 31 December 2020, the REIT had no significant contingent liabilities (2019: None).

27. SUBSEQUENT EVENTS

The following are 'non-adjusting' events that occurred after the reporting period:

Declaration of a distribution

In line with IAS 10, Events after the Reporting Period, the declaration of the KShs. 108,583,380 distribution in relation to the 2020 financial year occurred after the end of the reporting period,

resulting in a non-adjusting event that is not recognised in the financial statements. Refer to Note 18 to the financial statements for the distribution declared.

Other than the above, there are no other subsequent events.

GLOSSARY

Term or abbreviation	Meaning
“the Act”	means The Capital Markets Act, Chapter 485A of the Laws of Kenya, (Amended by Act No. 48 of 2013);
“AGM”	means Annual General Meeting;
“CBD”	means central business district;
“CDSC”	means Central Depository and Settlement Corporation Limited;
“CED”	means Civil Engineering Design (K) Ltd;
“CGU”	means Cash-Generating Unit;
“CMA” or “Capital Markets Authority” or “Authority”	means the Capital Markets Authority in Kenya established by statute (and includes any successor thereto (whether immediate or derivative));
“Co-op Bank”	means The Co-operative Bank of Kenya Limited;
“Distribution Date”	means date by which distributions to unitholders are required to be made, being 30 April annually;
“Eligible Assets”	means the eligible real estate and/or eligible cash investments that the ILAM Fahari Property Income Fund is permitted to invest in;
“FVOCI”	means fair value through other comprehensive income;
“FVTPL”	means fair value through profit or loss;
“GLA”	means gross lettable area, being the total area of a building that can be let to a tenant. GLA comprises primary GLA plus supplementary areas which include for example, storerooms, balconies, terraces, patios and signage/advertising areas dedicated for the use by the tenant and exclude basements and parking. Unless otherwise noted, any reference within the report to m^2 is based on GLA;
“IFRS”	means the International Financial Reporting Standards;
“ILAM”	means ICEA LION Asset Management Limited;
“Independent Property Valuers” or “Valuer”	means the independent property valuers of the I-REIT, as appointed from time to time on a 3-year cycle or in line with the independence rules per the Regulations;
“I-REIT”	means Income REIT;
“KRA”	Means Kenya Revenue Authority;
“LDK”	means LDK Africa Limited;
“Legal Advisor”	means the legal advisor to the REIT, being Mboya Wangong’u and Waiyaki Advocates; Hamilton Harrison & Matthews Advocates
“LLP”	means Limited Liability Partnership;
“m^2” or “sqm”	means square metres;
“MER”	means the management expense ratio as defined in the REITs Regulations;
“NAV”	means net asset value, being the value of all the ILAM Fahari I-REIT’s assets after subtracting the value of all of its liabilities as determined in accordance with the consolidated financial statements of ILAM Fahari I-REIT;
“NSE”	means Nairobi Securities Exchange Limited, approved as a securities exchange under the Act;
“Registrar”	means the registrar of REIT securities in relation to ILAM Fahari I-REIT, being CDSC Registrars Limited;
“REIT”	means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA;
“REIT Manager”	means STANLIB Kenya; and, after 18 May 2020, ICEA LION Asset Management;

GLOSSARY (Continued)

"REITs Regulations"	means the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 as may be amended or modified from time to time;
"REIT Trustee" or "Trustee"	means the Co-operative Bank or Co-op Bank of Kenya Limited;
"SKL"	means STANLIB Kenya Limited;
"ILAM"	ICEA LION Asset Management Limited
"SME's"	means Small and Medium Enterprises;
"SPV"	means special purpose vehicle;
"sq.ft."	means square foot or square feet;
"STANLIB Kenya"	means STANLIB Kenya Limited, Certificate of Incorporation number C.9522;
"Subsidiary" or "Subsidiaries"	means a subsidiary or the subsidiaries of the ILAM Fahari I-REIT property fund, being an entity or entities owned more than 50% by the REIT Trustee on behalf of the REIT;
"TAV"	means total asset value, being the value of all the ILAM Fahari I-REIT assets prior to any adjustments or deduction of liabilities;
"Technical Engineer"	means one or both of the technical engineers being, Civil Engineering Design (K) Ltd and/or LDK Africa Limited;
"Trust Deed"	means the trust deed between STANLIB Kenya and Co-op Bank establishing the ILAM Fahari I-REIT property fund as an Income Real Estate Investment Trust Scheme, 30 September 2015;
"Unitholder(s)" or "REIT Unitholder(s)" or "Securities holder"	means any person including the Promoter, who has purchased or otherwise acquired (including through the exchange, or in consideration of any transfer, of Property) and holds any Units and is registered in the Register as evidence that he holds the units;
"VAT"	means value-added tax as defined in the Value-Added Tax Act, 2013, as amended;
"ZAR"	means South African Rand.