

# In Search of New Horizons ILAM FAHARI I-REIT

ANNUAL REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021



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## OUR CORPORATE INFORMATION

### REGISTERED OFFICE OF THE REIT

4<sup>th</sup> Floor, ICEA LION Centre  
Chiromo Road  
P.O. Box 46143 – 00100  
GPO Nairobi, Kenya  
Tel: +254 20 275 0000  
Email: ilamreit@icealion.com

### COMMERCIAL BANKER

The Co-operative Bank of Kenya Limited  
Co-operative House  
Haile Selassie Avenue  
P.O. Box 48231 – 00100  
Nairobi, Kenya  
Tel: +254 703 027 000  
Email: customerservice@co-opbank.co.ke;  
custodial@co-opbank.co.ke

### TRUSTEE

The Co-operative Bank of Kenya Limited  
Co-operative House  
Haile Selassie Avenue  
P.O. Box 48231 – 00100  
Nairobi, Kenya  
Tel: +254 703 027 000  
Email: customerservice@co-opbank.co.ke;  
custodial@co-opbank.co.ke

### CUSTODIAN

The Co-operative Bank of Kenya Limited  
Co-operative House  
Haile Selassie Avenue  
P.O. Box 48231 – 00100  
Nairobi, Kenya  
Tel: +254 703 027 000  
Email: customerservice@co-opbank.co.ke;  
custodial@co-opbank.co.ke

### AUDITOR

KPMG Kenya  
8<sup>th</sup> Floor, ABC Towers  
ABC Place, Waiyaki Way  
P. O. Box 40612 – 00100  
Nairobi, Kenya  
Tel: +254 20 280 6000  
Email: info@kpmg.co.ke

### REIT MANAGER

ICEA LION Asset Management Limited  
4<sup>th</sup> Floor, ICEA LION Centre  
Chiromo Road  
P.O. Box 46143 – 00100  
GPO Nairobi, Kenya  
Tel: +254 20 275 0000  
Email: ilamreit@icealion.com

### TAX ADVISORS

Viva Africa Consulting LLP  
3<sup>rd</sup> Floor, Kiganjo House  
Rose Avenue, Off Denis Pritt Road  
P.O. Box 75079 – 00200  
Nairobi, Kenya  
Tel: +254 20 246 5567  
Email: KThuo@vivaafriallp.com

### COMPLIANCE OFFICER – TRUSTEE

Henry Karanja  
Co-operative House  
Haile Selassie Avenue  
P.O. Box 48231 – 00100  
Nairobi, Kenya  
Tel: +254 20 327 6965  
Email: hmkaranja@co-opbank.co.ke

### COMPLIANCE OFFICER – REIT MANAGER

Olga Omalla  
4<sup>th</sup> Floor, ICEA LION Centre  
Chiromo Road  
P.O. Box 46143 – 00100  
GPO Nairobi, Kenya  
Tel: +254 20 275 0000  
Email: olga.omalla@icealion.com

### COMPANY SECRETARY – TRUSTEE

Elissa Otemba  
Co-operative House  
Haile Selassie Avenue  
P.O. Box 48231 – 00100  
Nairobi, Kenya  
Tel: +254 20 327 6474  
Email: eotemba@co-opbank.co.ke

### REGISTRAR

CDSC Registrars Limited  
1<sup>st</sup> Floor, Occidental Plaza  
Muthithi Road, Westlands  
P.O. Box 6341 – 00100  
Nairobi, Kenya  
Tel: +254 20 258 8000  
Email: registrar@cdscregistrars.com

### LEGAL ADVISORS

Mboya Wangong'u & Waiyaki Advocates  
Lex Chambers, Maji Mazuri Road  
Off James Gichuru Road  
P.O. Box 74041 – 00200  
Lavington, Nairobi  
Tel: +254 20 216 0312  
Email: gmboya@lexgroupafrica.com

## OUR CORPORATE INFORMATION

### LEGAL ADVISORS

Hamilton Harrison & Mathews Advocates  
1<sup>st</sup> Floor, Delta Office Suites,  
Waiyaki Way,  
P.O. Box 30333  
Nairobi, Kenya  
Email: kenneth.fraser@dentons.com

### INDEPENDENT VALUERS

Jones Lang LaSalle Kenya Ltd  
4<sup>th</sup> Floor, Sanlam Tower, Waiyaki Way,  
Nairobi  
Tel: +254 709 324 324  
Email: jll.co.za; africa.jll.com

### PROPERTY MANAGER

CBRE Excellerate  
3<sup>rd</sup> Floor, Grenadier Tower  
1 Woodvale Close, Westlands  
P.O. Box 1620 – 00606  
Nairobi, Kenya  
Tel: +254 20 444 2061  
Email: Lillian.Mbaabu-Muriuki@cbreexcellerate.com  
Resigned on 15th April 2021

### PROPERTY MANAGER

Knight Frank Kenya Limited  
Lion Place  
Waiyaki Way  
P.O. Box 39773 – 00623  
Nairobi, Kenya  
Tel: +254 20 423 9000  
Email: info@ke.knightfrank.com  
Appointed on 15th April 2021

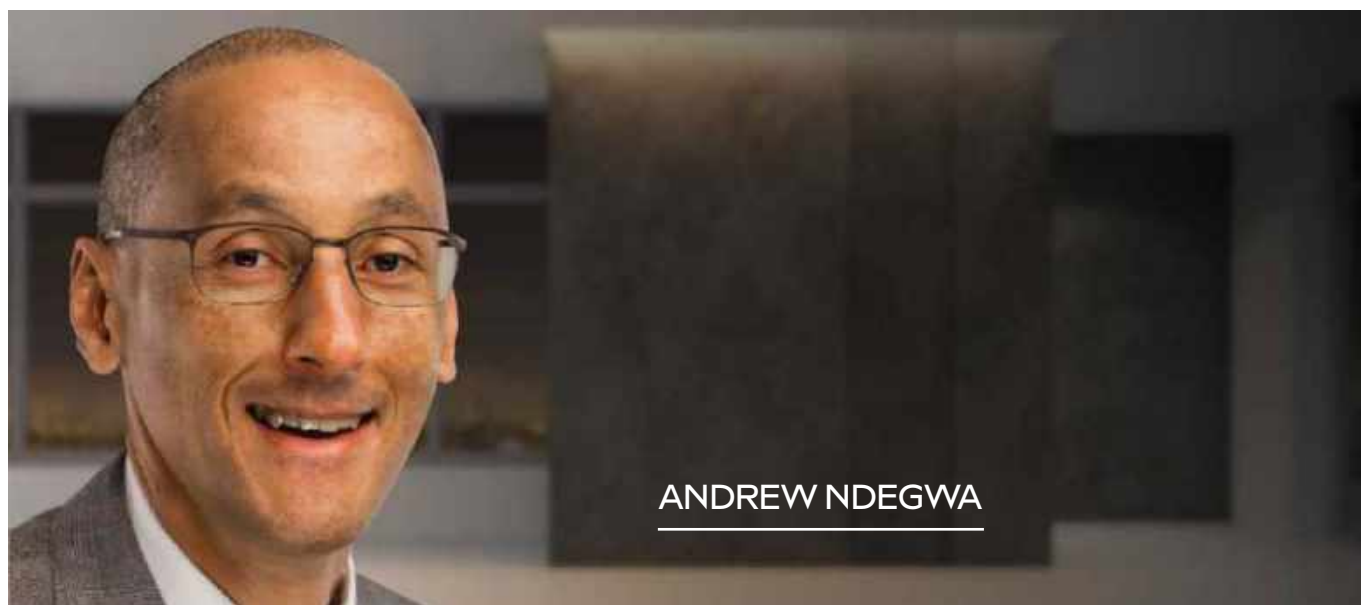
### STRUCTURAL ENGINEER

Civil Engineering Design (K) Ltd  
1<sup>st</sup> Floor Sri Sathya Sai Centre  
Musa Gitau Road  
P.O. Box 54531 – 00200, City Square  
Nairobi, Kenya  
Tel: +254 20 806 8141  
Email: info@ced.co.ke

### MEP ENGINEER

LDK Africa Limited  
9<sup>th</sup> Floor, Purshottam Place  
Westlands Road  
P.O. Box 60293 – 00200  
Nairobi, Kenya  
Tel: +254 20 374 3838  
Email: ldkafrica@ldk.gr

## THE CHAIRMAN'S STATEMENT



***"On behalf of the REIT Manager's Board of Directors, I present the ILAM Fahari I-REIT's annual report for the year ended 31 December 2021."***

## HIGHLIGHTS

Kenya's economy demonstrated resilience to the shock brought about by COVID-19, with output in the first half of the year rising above pre-pandemic levels. In 2021 as a whole, Gross Domestic Product (GDP) is expected to have grown by at least 5%, one of the faster recoveries among Sub-Saharan African countries. The improved performance was supported by stronger growth in the education, tourism and transport sectors. At 5.7%, inflation remained below the Central Bank's upper target band of 7.5%, supported by stable food and fuel prices through 2021. The Kenya Shilling weakened against the US Dollar owing to stronger importer demand.

The real estate market however continues to be impacted by the pandemic and economic downturn, particularly in the retail sector. The development boom witnessed over the past decade has put downward pressure on rentals and average rates in the office, residential, hotel, and retail markets, especially in Nairobi where the bulk of these developments are concentrated. Increased supply over the years has caught up with and surpassed demand, resulting in the current 'buyer's market' with landlords having to contend with offering tenant incentives to boost occupancy. In the retail sector the situation has been exacerbated by the financial stress which some tenants have experienced.

For ILAM Fahari I-REIT, the year was quite challenging owing to the absence of a trading anchor tenant at Greenspan Mall, after having distressed Tuskys at the end of 2020. This resulted in direct loss of revenue but also occasioned reduced footfall in the mall and low collections from the rest of the tenants. Consequently, the REIT Manager on boarded Naivas as the replacement anchor tenant with rental income accruing from August 2021. We expect better performance and increased foot traffic going forward, after the new anchor tenant opened their store in February 2022.

The impact of these challenges is reflected in the financial out-turn of the REIT for 2021, as net profit for the year declined significantly to a loss of KShs 124.0 million compared to a profit of KShs 148.0 million for the comparative period the previous year. The reversal was mainly attributable to revaluation losses recorded by the property portfolio in the context of the COVID-19 pandemic whose impact continues to be a material valuation uncertainty in the short to medium term. In addition, there was increased vacancy at Greenspan Mall resulting

## THE CHAIRMAN'S STATEMENT (Continued)

from Naivas taking up a smaller area compared to that previously occupied by Tuskys, which contributed to a further devaluation. It is worth noting however that the remodelling of the anchor supermarket store was a strategic decision by the REIT Manager to reduce concentration risk and will ultimately have a positive impact once the remaining space is leased out.

Similarly, the distributable earnings declined by 24% to KShs 102.0 million (2020: KShs 134.4 million). The reduction was mainly attributable to the loss of revenue from the anchor tenant for the first seven months of the year under review. The previous anchor tenant occupied 48% of the Gross Lettable Area (GLA), which accounted for about 40% of rental income collected. In addition, property expenses rose by KShs 19 million, partly as a result of increased tax leakage occasioned by irrecoverable withholding of tax by tenants.

In light of the reduced earnings, the Board recommended, and the REIT Trustee approved, a distribution which is slightly lower than the prior year. A first and final distribution of KShs 0.50 per unit will be paid to unitholders no later than 30 April 2022. This amounts to a payout ratio of 89%.

## APPRECIATION

On behalf of the Board, I would like to thank the REIT Trustee and the Capital Markets Authority for the continuing support afforded to us during what has been a difficult period. Both play a strong role in safeguarding the interests of the unitholders. I also thank my fellow directors for their guidance and contribution, as well as the management team for their diligent work in managing the REIT's operations.

Of utmost importance to us are the unitholders who have continued to show commitment to, and interest in, the REIT despite the challenges being faced. For that, we are truly grateful.



**ANDREW NDEGWA | Chairman, ICEA LION Asset Management Limited**

**Date: 29 March 2022**





**ILAM**  
FAHARI I-REIT

**REIT MANAGER'S BOARD OF DIRECTORS**



## REIT MANAGER'S BOARD OF DIRECTORS



**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 LION Asset Management (Uganda).

Einstein is the Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA) and is a past Chairman of the Fund Managers Association (FMA) where he serves in 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 alumni 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 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 Kenya Plc.



**DR. CAESAR MWANGI (PhD) | Non-Executive Director**  
Appointment Date: 23 August 2021

Caesar is the Chief Executive Officer of ICEA LION Insurance Holdings Ltd, as well as Director of ICEA LION Life Assurance Company, ICEA LION General Insurance, ICEA LION Asset Management Company and the ICEA LION Trust Company. ICEA LION Group is a one-stop financial services group offering innovative solutions and services in insurance, pensions, investments and trusts through its eight Companies in Kenya, Uganda and Tanzania.

Caesar has had an illustrious career in various management and leadership roles spanning over 25 years in various locations in Africa. Prior to joining the ICEA LION Group, Caesar served as the Managing Director of Sasini PLC (Agribusiness), Africa Regional Director of the Global Village Energy Partnership (Renewable Energy), Chief Executive Officer of Trans Africa renewable energy enterprise Sunny Money, Finance Director of the Independent Mediation Service of South Africa and Associate Director of the Consultative Group in International Agriculture Research among other roles. He has also been a visiting Lecturer at the Strathmore Business School where he has facilitated various executive development programs.

He has a PhD. in Organizational Performance and Change Management from the University of Johannesburg, an MBA from the Wits Business School in Johannesburg and a BA in Economics from the University of Nairobi. He is also a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Executive Leadership Coach.

Caesar has a robust optimism in the incredible untapped potential in Kenya and Africa at large and is energized by the need to provide solutions that can solve the challenges that face people in varied sectors of the economy. He is currently a member of the Board of the UNEP – PSI (United Nations Environmental Program, Principles of Sustainable Insurance Initiative) where he represents Insurers in Africa and the Middle East. He Chairs the Boards of the Strathmore Education Registered Trust and the Kianda School in Nairobi and is also the Vice Chairman of the Strathmore University Council.

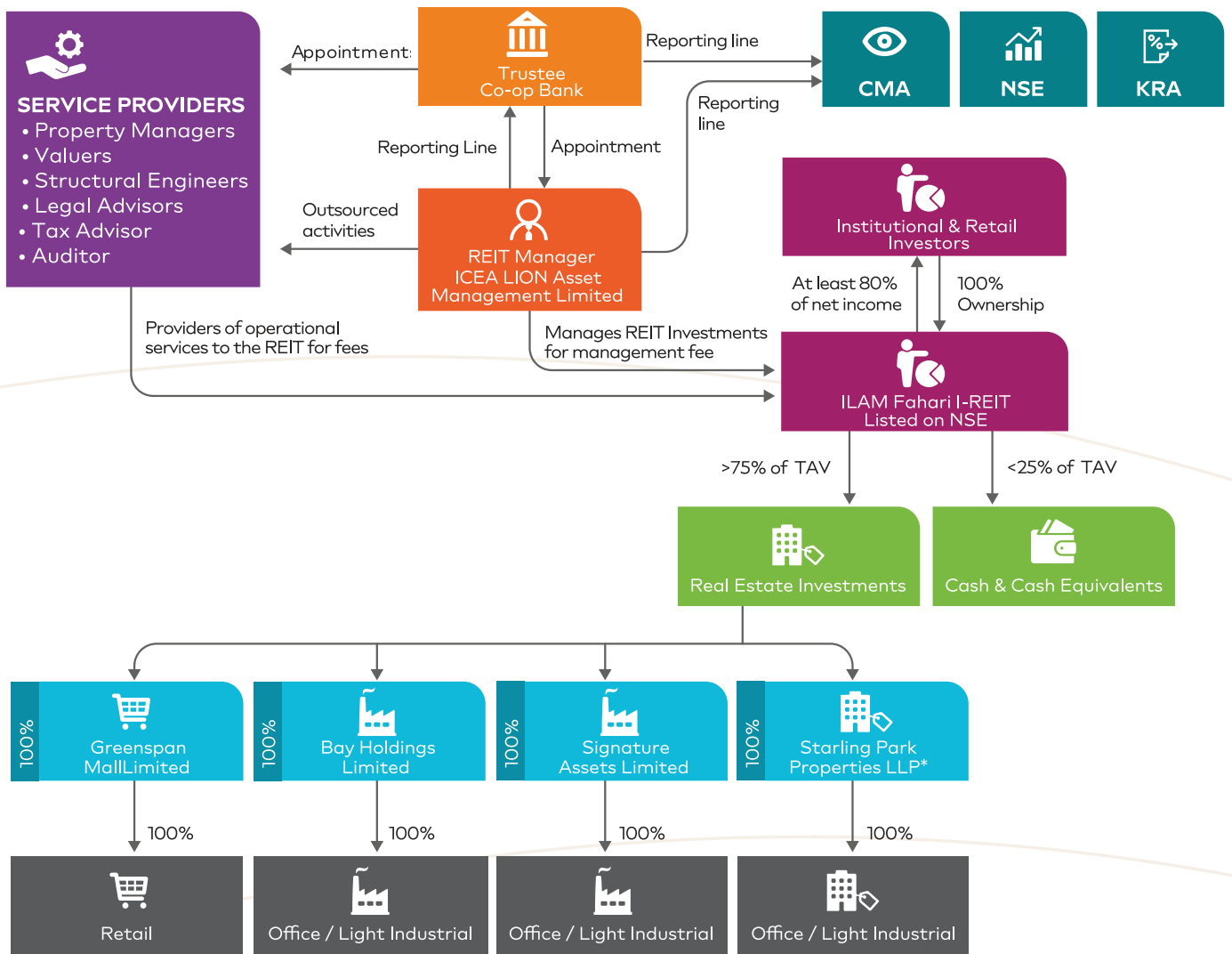


**GEORGE NYAKUNDI | Non-Executive Director**  
Appointment Date: 23 August 2021

George holds a Bachelor of Arts Degree in Economics from Napier University in Scotland, U.K. He holds a Master's Degree in Business Administration from the Eastern and Southern Africa Management Institute (ESAMI). Professionally he is an Associate of the Chartered Insurance Institute of London and holds a Diploma in Life and Disability Underwriting (DLDU) from the Assurance Medical Society, London.

He has over 30 years' experience in the life assurance sector. George started his career at Kenindia Assurance in 1988 before moving on to Occidental Insurance where he briefly worked as the Marketing and Administration Manager. He later joined Jubilee Insurance in 1999 as a Senior Underwriter for the Group's life insurance business in East Africa and left in 2006 to join Alliance Insurance Corporation in Tanzania as the Head of the Life Business. He spearheaded the demerger of the life insurance business to form Alliance Life Assurance Company, Tanzania, serving as the Assistant General Manager before taking over as the Chief Executive Officer in 2013. After working out of the country for ten years, he voluntarily resigned to come back home and join ICEA LION in May 2016. He served as GM, Business Development & Technical Services until he took up the role of CEO in January 2021.

## 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.

"ILAM Fahari I-REIT aims to provide consistent income and capital growth in the long term. Our active management approach targets quality physical properties within carefully chosen economically growing nodes."







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**ILAM**  
FAHARI I-REIT

REIT MANAGEMENT TEAM

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**EINSTEIN KIHANDA | Chief Executive Officer: ICEA LION Asset Management Limited & 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 LION Asset Management (Uganda). Einstein is the Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA) and is a past Chairman of the Fund Managers Association (FMA) where he serves in the Stakeholders Committee.



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

Barack has several years of experience in the investment industry, with experience in both conventional and alternative assets including real estate. He has held various leadership positions and is currently the Chief Investment officer at ICEA Lion Asset Management.

Barack holds a Bachelor of Science Degree in Financial Services, Master of Science in Finance (Economic Policy) and Master of Science Real Estate (Investment and Finance). 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. He is also a member of the Royal Institution of Chartered Surveyors (MRICS). 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 especially in the area investments. Barack is a "Certified Engagement and Productivity Coach - (CEPC)" having successfully completed an ICF –Accredited Program of 60 ACSTH at CDI-Africa Coaching.



**ELIZABETH IRUNGU | General Manager, Business Development and 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.



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

Ruth has 18 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 9 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.



**MAUREEN MUGAMBI | Financial Accountant: ILAM Fahari I-REIT**

Maureen has over six years of experience in the finance sector. She is well-versed in financial reporting, cash flow management, budgeting and treasury management. At ILAM Fahari I-REIT, she is charged with preparation, compiling and presentation of financial data for the REIT and the four subsidiaries. Before joining ILAM Fahari I-REIT, Maureen worked as a Financial Accountant at Centum Investment Company Plc where she was responsible for financial reporting, budgeting and analysis of the subsidiary companies. Maureen holds a Bachelor of Commerce degree in Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She is also a student with the Association of Chartered Certified Accountants (ACCA).



**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.



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**ILAM**  
FAHARI I-REIT

## CORPORATE GOVERNANCE

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## STATEMENT OF COMPLIANCE

ICEA LION Asset Management Limited, 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 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.

## 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 8 to 10 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 2021, 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:

- 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.

## 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	17th March 2021	23rd Jun 2021	22nd Jul 2021	23rd Aug 2021	22nd Sep 2021	30th Sep 2021	25th Nov 2021
Andrew Ndegwa	Executive Chairman	✓	✓	✓	✓	✓	✓	✓
Einstein Kihanda	Executive Director	✓	✓	✓	✓	✓	✓	✓
Patrick Mugambi	Non- Executive Director	✓	✓	✓	✓	✓	✓	✓
Stephen Mallowah	Non- Executive Director	✓	✓	✓	✓	✓	✓	✓
Kairo Thuo	Non- Executive Director	✓	✓	✓	✓	✓	✓	✓
Dr. Caesar Mwangi*	Non- Executive Director	X	X	X	✓	✓	✓	✓
George Nyakundi*	Non- Executive Director	X	X	X	✓	✓	✓	✓

\*Dr. Caesar Mwangi and George Nyakundi were appointed as directors on 23rd August 2021.



**ILAM**  
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**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.



#### 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.



#### Regulatory Compliance

One of the key risks that emerged in the Kenyan property market 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.





### 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 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.



### 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 Risk

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.

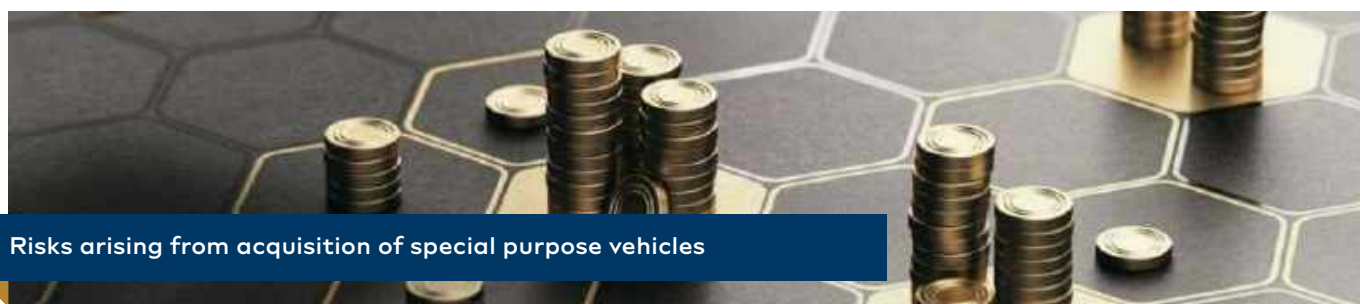
The Kenya Revenue Authority ("KRA") is expected to publish subsidiary regulations or rules within the Kenyan Income Tax Act to provide detailed provisions and guidelines on the new section 20(1)(d). In addition, these rules are expected to result in the REIT's wholly owned subsidiaries not incurring 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 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.





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**ILAM**  
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## SUSTAINABILITY REPORT

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## 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 2021 evaluation was conducted by Environmental Business Strategies Kenya Limited ("EBS"). The same applies to the previous financial years.

## ENVIRONMENTAL DATA

	UNIT	2017	2018	2019	2020	2021
<b>ENERGY CONSUMPTION*</b>	KShs	21,781,620	22,041,371	22,893,763	20,997,105	20,438,375
<b>WATER CONSUMPTION*</b>	m <sup>3</sup>	44,410	75,912	60,812	46,133	44,361
<b>WASTE GENERATION</b>	<b>TONNES</b>					
<b>Greenspan Mall</b>		768	588	614	422	130
<b>67 Gitanga Place</b>		N/A	358	204	96	138

\*Greenspan Mall only

## REFLECTING ON 2021

GREENSPAN MALL	
E&S Area	DETAILS
<b>Response to Covid-19</b>	<p>The Mall continued to comply with guidelines for Covid-19 including:</p> <ul style="list-style-type: none"> <li>Monthly sanitization of all common areas, the last month's exercise was conducted on 2nd November. However, in instances where there has been a case of infection within the month, tenants have conducted the sanitization immediately.</li> <li>Strategic placement of hand wash basins at the gates to enable pedestrians wash their hands before entering the building.</li> <li>Installation of sanitizer dispensers within the walkways and entrance to the lifts.</li> <li>Signage e.g. wear your mask, sanitize and maintain social distance is strategically placed within the common areas.</li> <li>The Mall is currently not admitting individuals who don't have masks and this is being enforced at the gates.</li> </ul>
<b>Major repairs and maintenance works</b>	<p>In 2021, the Mall management focused on the repair of the roof and gutters to address leakages occasioned by worn out and rusty roofing panels. The Malls downpipes which direct rainwater from the roof gutters to the storm drains on the ground were also replaced besides general repairs of the washroom and replacement of window panels across the Mall. In addition, the mall entrance and front side façade was painted and the tenant's signage revamped to ensure standardization and uniformity using light box signs.</p>

E&S Area	DETAILS
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.
Safety audits	In 2021, the Mall undertook a number of assessments related to the Environmental and Social aspects including statutory safety and Health Audit, an environmental Audit and Fire safety assessment in line with key legislation, namely, the Environmental Management and Coordination Act (EMCA), 2015 and legal notice 101 of 2003, section 7(1) of Occupational Safety and Health Act (OSHA), 2007 and section 36 of the Fire Risk Reduction Rules 2007 respectively. The Audits found that the Mall is compliant with regulations.

#### GITANGA PLACE

E&S Area	DETAILS
Response to Covid-19	The tenant put in place stringent measures to prevent the spread of the Covid-19 which include but not limited to monthly sanitization, restricted access to the building, routine maintenance and cleaning is carried out on Saturday afternoon and Sunday, sanitizing at the gate and mandatory wearing of face 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.

## STATUS ON 2021 PRIORITIES

Property	E&S Area	Status	Details
Greenspan Mall	Consider water harvesting and recycling. Install grease traps for eateries and ensure liquid waste channels are unobstructed.	X	Ongoing
	Energy conservation through use of energy saving bulbs	X	Ongoing
67 Gitanga Place	Emergency drill	X	Pending. Interrupted by Covid-19 pandemic
	Conduct a baseline risk assessment on the building	X	Ongoing
	Develop a risk register	X	Ongoing

## FOCUS IN 2022

Property	E&S Area
Greenspan Mall	Consider water recycling – grey water reuse Updated risk register Water proofing in the basement and address water logging. Revamping the gardens. Repainting of the façade. Repainting of the interior. Overhaul of the fire system including sprinkler system Repairs of expansion joints.
67 Gitanga Place	Emergency drill Risk register
Bay Holdings	Fire safety policy and rectification of fire safety related issues





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## 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 2021, 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 of 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.

A 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 ICEA LION Asset Management Limited who served during the period under review are:

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
Dr. Caesar Mwangi	Non- Executive Director	Appointed 23 August 2021
George Nyakundi	Non- Executive Director	Appointed 23 August 2021

## 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 limits.

### 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	2021	2020	Change
Net (loss) / profit for the year (KShs)	(123,951,010)	148,025,113	>-100%
Rental and related income (KShs)	297,549,052	341,156,587	-13%
Property expenses	122,048,628	130,361,698	6%
Fund operating expenses	107,499,674	99,249,948	-8%
Fair value adjustment	(225,924,281)	13,604,197	>-100%
Distributable earnings (KShs)	101,973,271	134,420,916	-24%
Market value of property portfolio (KShs)	3,258,000,000	3,481,400,000	-6%
Net asset value per unit (KShs)	19.58	20.86	-6%
Distribution per unit (KShs)	0.50	0.60	-17%

Net earnings decreased significantly to a loss of KShs. 124.0 million mainly due to devaluation of investment property against the backdrop of the COVID-19 pandemic whose impact is a material valuation uncertainty in the short to medium term. All the four assets in the property experienced a reduction in fair value.

Distributable earnings declined by 24% to KShs. 102.0 million compared to KShs. 134.4 million in the comparative period. This was mainly due to loss of revenue from the anchor tenant for a period of seven months during the year under review. Rental and related income decreased by 13% mainly for the reason given above in addition to increased vacancy at Greenspan Mall. Property expenses reduced by 6% mainly due to a significant reduction in provisions for bad and doubtful debts from KShs 33.1 million to KShs 5.7 million. This was however offset by increased provisions for irrecoverable withholding tax which is considered a tax leakage owing to the exemption status of the investee companies. The REIT Manager is still following up with KRA to obtain tax exemption certificates for all the investee companies to avoid further withholding by the tenants going forward. Fund operating expenses increased by 8% mainly due to the REIT Manager reverting to the fees as per the management agreement. Last year, the REIT Manager temporarily reduced their fees by 10% to cushion the investors from the impact of the COVID-19 pandemic. The REIT Manager is working on a strategy that among other initiatives aims to reduce the management costs permanently.

## DISTRIBUTION

The REIT Manager has recommended, and the Trustee has approved a first and final distribution of KShs. 90,486,150 in respect of the year ended 31 December 2021 (2020: KShs. 108,583,380). 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.

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

Details	2021	2020	2019	2018	2017
<b>Distributable earnings (KShs)</b>	101,973,271	134,420,916	144,034,195	127,885,294	149,113,640
<b>Minimum distribution per Trust Deed and Regulations (80%)</b>	81,578,617	107,536,733	115,227,356	102,308,235	119,290,912
<b>Distribution (KShs)</b>	90,486,150	108,583,380	135,729,225	135,729,225	135,729,225
<b>Distribution as a % of distributable earnings (%)</b>	89	81	94	106	91
<b>Weighted average units in issue (number)</b>	180,972,300	180,972,300	180,972,300	180,972,300	180,972,300
<b>Distributable earnings per unit (KShs)</b>	0.56	0.74	0.80	0.71	0.82
<b>Distribution per unit (KShs)</b>	0.50	0.60	0.75	0.75	0.75

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2021 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 2022.

## 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

In the financial year under review none of the directors held REIT units, in their individual capacity.

## 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.

## REIT MANAGER'S OPERATIONAL REVIEW

2021 was a very challenging year with the absence of an anchor tenant at Greenspan Mall for the whole year under review. This impacted the REIT's operations significantly as the reduced footfall resulting from the absence of a trading anchor affected the performance of other tenants.

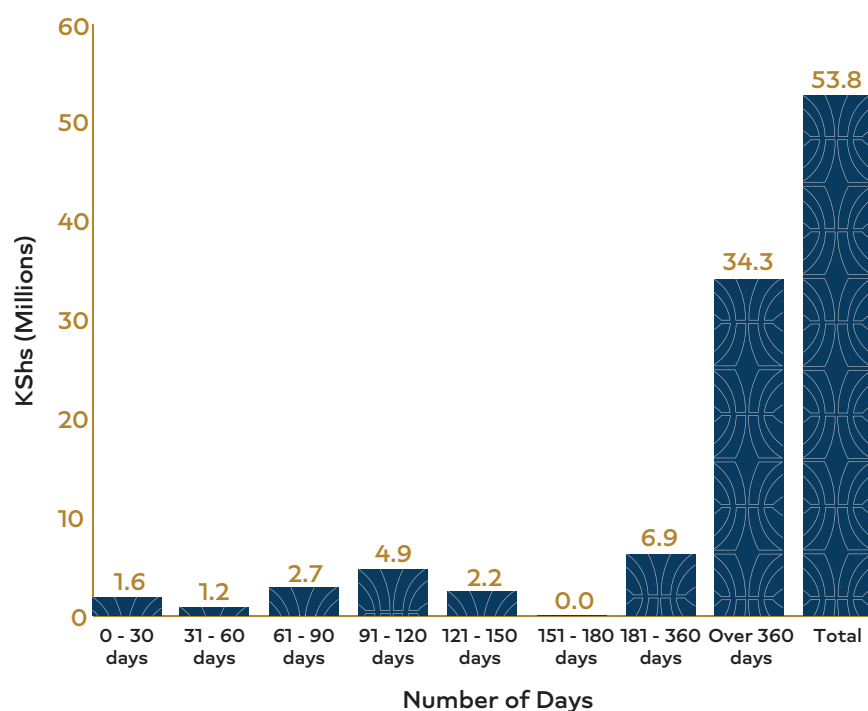
On the positive side, the REIT Manager on boarded Naivas Limited as the replacement anchor tenant with rental income accruing from August 2021. The tenant opened their store in February 2022 and is now actively trading. We believe 2022 will be a better year with the new development.

Besides 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);
- 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.

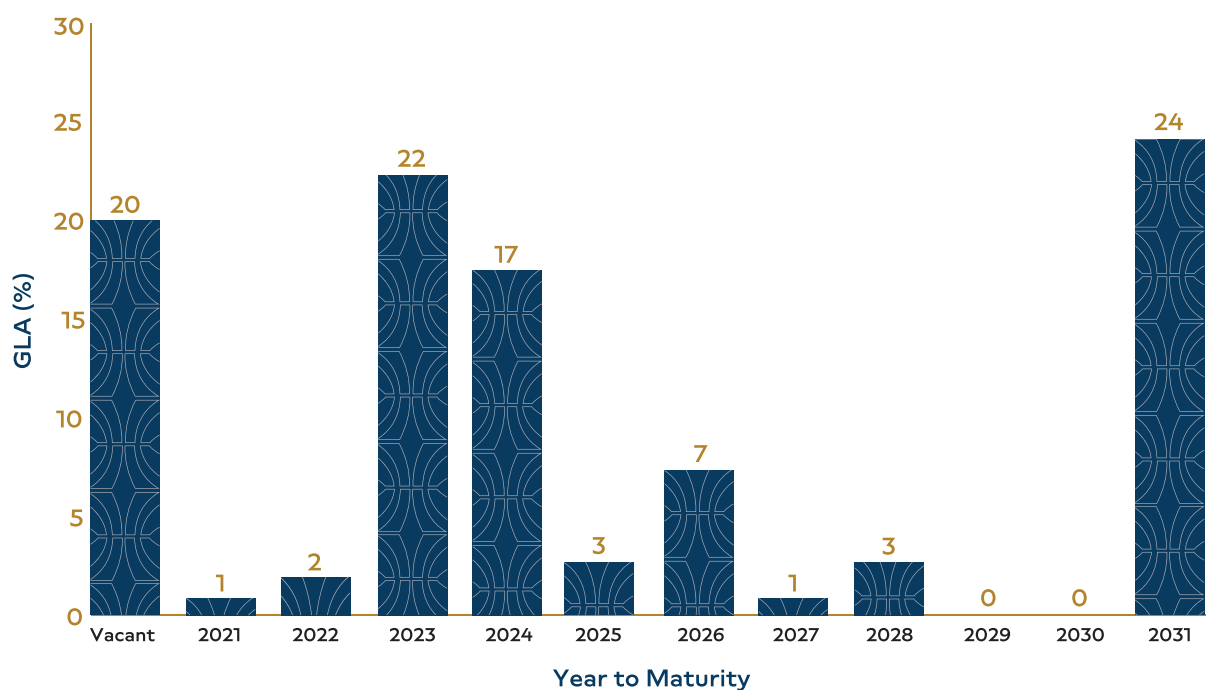
## KEY PERFORMANCE INDICATORS

## DEBTORS AGE ANALYSIS



Tenant arrears (excluding service charge receivable) stood at KShs. 53.8 million at the end of 2021 (2020: KShs. 44.7 million). The significant increase in arrears is attributable to the continued impact of the COVID-19 pandemic as well as absence of a trading anchor tenant throughout the year. The latter contributed to poor performance of other tenants hence low collections.

## LEASE EXPIRY PROFILE BY GROSS LETTABLE AREA (GLA)

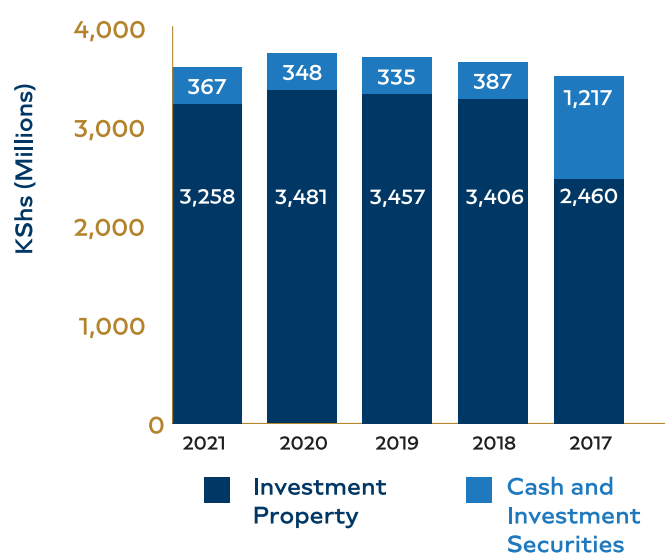


The lease expiry profile continues to be well spread with 55% of the GLA expiring from two years after reporting date. The 24% expiring in 2031 relate to the anchor tenant at Greenspan Mall.

**VACANCIES**

The total portfolio vacancy rate is at 20.1% while the portfolio target is at 5%.

Property	GLA	Vacant GLA	Vacancy %
Greenspan Mall	155,477	40,153	25.8%
67 Gitanga Place	41,312	-	-
Bay Holdings	33,265	-	-
Highway House	7,638	7,638	100.0%
<b>TOTAL WEIGHTED AVERAGE</b>	<b>237,692</b>	<b>47,791</b>	<b>20.1%</b>

**ASSETS UNDER MANAGEMENT (AUM)**

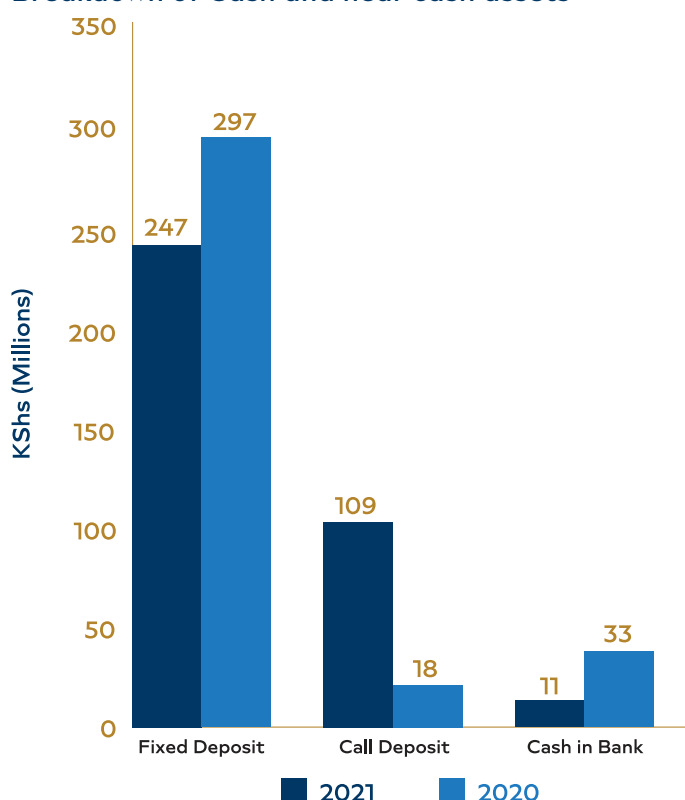
In 2021 the AUM decreased by 5% to KShs. 3.63 billion (2020: KShs. 3.83 billion) with investment property reducing by 6.4% due to the revaluation losses experienced by the property assets against the backdrop of the COVID-19 pandemic as well as increased vacancies at Greenspan Mall.

**CASH & NEAR CASH ASSETS (KShs)**

Cash instruments	2021	2020
Cash and cash equivalents	120,294,160	197,772,556
Investment securities	246,686,432	150,437,699
<b>TOTAL</b>	<b>366,980,592</b>	<b>348,210,255</b>

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.

## 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)	2021	2020
Total asset value	3,712,525,774	3,883,746,200
Net asset value	3,543,204,347	3,775,738,737
Number of units in issue	180,972,300	180,972,300
<b>NET ASSET VALUE PER UNIT</b>	<b>19.58</b>	<b>20.86</b>

The decrease in total assets and net asset value is attributable to the revaluation loss of KShs. 225.9 million. This was offset by a net operating profit for the year ended December 2021 of KShs. 102.0 million (net of revaluation loss less the impact of the distribution paid during the year).

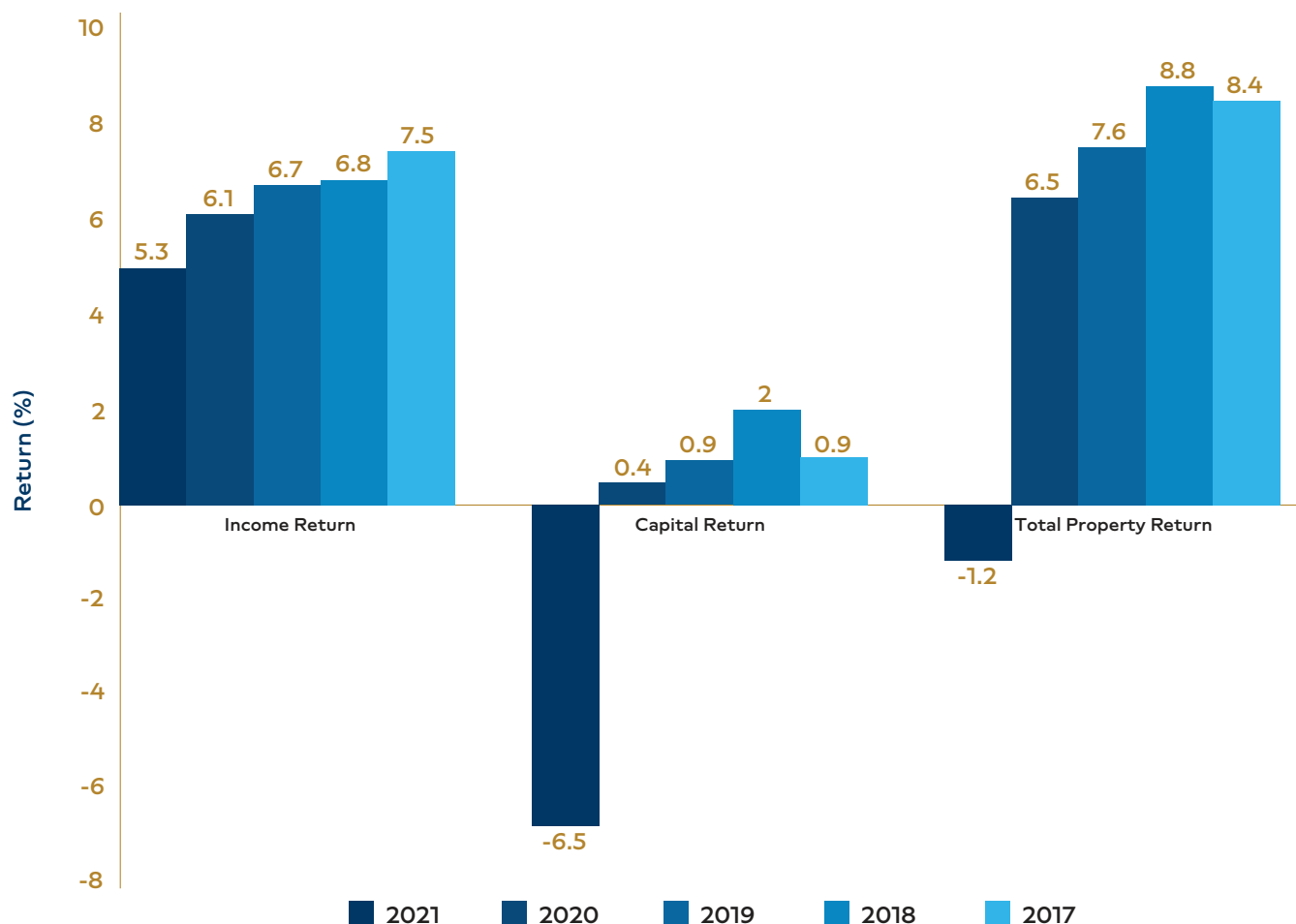
## NET ASSET VALUE PRIOR AND POST DISTRIBUTION OF EARNINGS

As at 31 December (KShs)	2021	2020	2019	2018	2017
Net asset value prior to distribution	3,543,204,347	3,775,738,737	3,763,442,849	3,723,943,826	3,666,181,292
Net asset value post distribution	3,452,718,197	3,667,155,357	3,627,713,624	3,588,214,601	3,530,452,067
Net asset value per unit prior to distribution	19.58	20.86	20.80	20.58	20.26
Net asset value per unit post distribution	19.08	20.26	20.05	19.83	19.51
Yield based on the value of the unit as at December 31	8.0%	10.6%	8.0%	6.8%	7.0%



## FUND RETURNS

### PROPERTY RETURNS



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

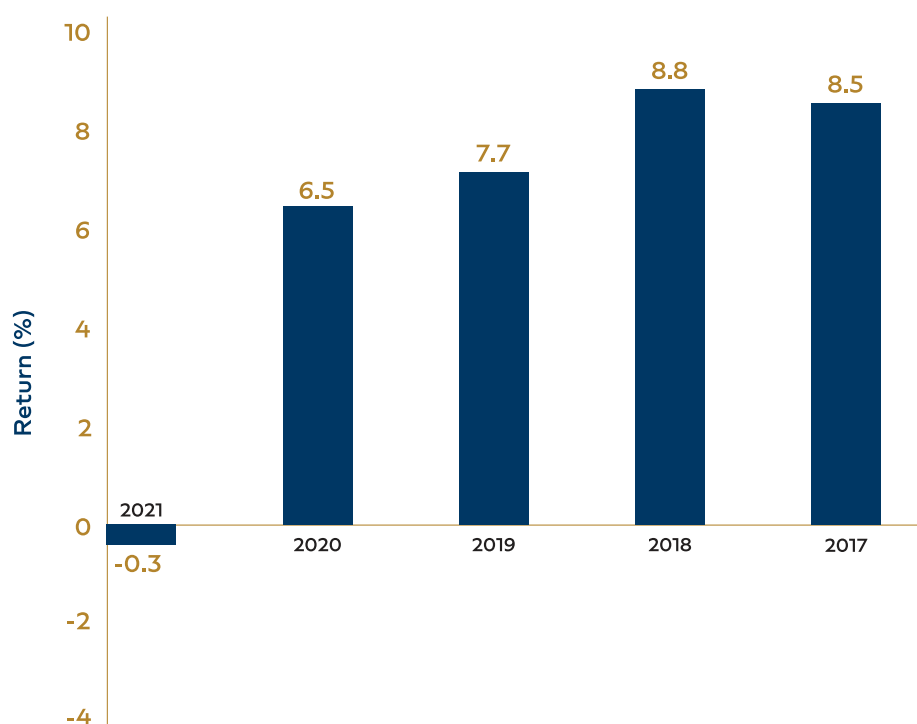
### INVESTMENT INCOME RETURN (ANNUALISED) (%)

	2021	2020	2019	2018	2017
Fixed and call deposit interest return	8.4	7.2	8.5	8.6	8.5
Treasury bills income return	-	-	9.3	11.1	10.3
<b>WEIGHTED AVERAGE INTEREST RETURN</b>	<b>8.4</b>	<b>7.2</b>	<b>8.6</b>	<b>8.8</b>	<b>8.7</b>

### 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 90% and 10% in 2021, respectively (2020: 91% and 9%).

## TOTAL PORTFOLIO RETURN (%)



## DISTRIBUTIONS MADE FOR THE LESSER OF 5 YEARS OR SINCE THE ESTABLISHMENT OF THE SCHEME

Sources of distribution (KShs)	2021	2020	2019	2018	2017
Net rental/dividend income from wholly owned property companies	183,808,700	211,258,848	230,724,761	201,460,125	184,894,243
Fund interest and other income	25,664,245	22,412,016	24,611,177	56,646,680	99,852,345
	<b>209,472,945</b>	<b>233,670,864</b>	<b>255,335,938</b>	<b>258,106,805</b>	<b>284,746,588</b>
Less:					
Fund operating expenses	(107,499,674)	(99,249,948)	(111,301,743)	(130,221,511)	(135,632,948)
Interest paid	-	-	-	-	-
<b>TOTAL POTENTIAL DISTRIBUTABLE INCOME FROM CURRENT EARNINGS INCOME</b>	<b>101,973,271</b>	<b>134,420,916</b>	<b>144,034,195</b>	<b>127,885,294</b>	<b>149,113,640</b>
Distribution from prior year retained earnings	-	-	-	7,843,931	-
<b>DISTRIBUTION</b>	<b>90,486,150</b>	<b>108,583,380</b>	<b>135,729,225</b>	<b>135,729,225</b>	<b>135,729,225</b>
<b>DISTRIBUTION AS A % AND IN COMPLIANCE WITH REGULATION 72</b>	<b>89%</b>	<b>81%</b>	<b>94%</b>	<b>106%</b>	<b>91%</b>

**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	2021	2020	2019	2018	2017
MER (%)	3.0	2.6	3.0	3.5	3.7

**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.

**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 2021, 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 2021 thus amounted to 100% (31 December 2020: 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 2021 and 31 December 2020. 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 2021, 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	2021	2020
Units at the beginning	180,972,300	180,972,300
Units issued during period	-	-
<b>UNITS IN ISSUE AT PERIOD END</b>	<b>180,972,300</b>	<b>180,972,300</b>

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 2021 was as follows:

Range	Units	Units (%)	Unit holders	Unit holders (%)
Less than 100	421	-	31	0.5
100 - 1,000	1,956,498	1.1	2,464	42.6
1,001 - 10,000	10,445,481	5.8	2,720	47.0
10,001 - 100,000	14,042,200	7.7	492	8.5
10,0001 - less than 5% of no. of units in issue	77,243,400	42.7	77	1.3
Holdings above 5% of no. of units in issue	77,284,300	42.7	3	0.1
<b>TOTAL</b>	<b>180,972,300</b>	<b>100.0</b>	<b>5,787</b>	<b>100.0</b>

**REIT SECURITIES HOLDINGS BY COUNTRY**

The REIT security holdings by country as at 31 December 2021 were as follows:

Country	Units	Units (%)
Kenya	171,342,000	94.7
South Africa	8,001,800	4.4
Uganda	860,900	0.5
Others	767,600	0.4
<b>TOTAL</b>	<b>180,972,300</b>	<b>100.0</b>

**REIT INVESTOR HOLDINGS**

Top 10 ILAM Fahari I-REIT unitholders as at 31 December 2021

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
ICEA ASSET Management Limited A/C 2000	5,000,000	2.76
Standard Chartered Kenya Nominees Ltd A/C KE13894	3,677,400	2.03
Bid Management Consultancy Limited	3,500,000	1.94
<b>TOTAL</b>	<b>117,170,058</b>	<b>64.74</b>



## CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2021 was as follows:



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

	2021	2020
Closing price per unit (KShs)	5.26	5.65

## 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
Knight Frank Kenya Limited	Property Manager	Property management fees
CBRE Excellerate	Property Manager	Property management fees
Jones Lang LaSalle Kenya Ltd	Valuer	Valuation fees
Viva Africa Consulting	Tax advisor	Tax consultancy services fees

\*Resigned as the REIT Manager on 18 May 2020.

### (b) Connected party transactions – fees paid

Transaction (KShs)	2021	2020
Asset management fees – ICEA LION Asset Management Limited	70,000,000	39,500,393
Asset management fees – STANLIB Kenya Limited*	-	23,499,607
Trustee fees – Co-op Bank	22,908,441	22,588,586
Custodial fees – Co-op Bank	1,832,675	1,807,248
Other administrative fees – Co-op Bank	1,101,047	919,980
Valuation fees – Jones Lang LaSalle Kenya Ltd	2,002,934	1,933,334
Property management fees – Knight Frank Kenya Limited	14,296,375	-
Property management fees – CBRE Excellerate	3,585,653	13,557,638
Tax consultancy services fee paid to Viva Africa Consulting	175,000	125,000
<b>TOTAL</b>	<b>115,902,125</b>	<b>103,931,786</b>

\* STANLIB Kenya Limited resigned as the REIT Manager on 18 May 2020.

**(c) Connected party balances**

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

Bank account name (KShs)	2021	2020
Investment account – fixed deposits	130,000,000	50,000,000
Investment account – call deposits	63,000,000	10,000,000
REIT Investment account	2,037,913	14,289,815
Rent collection account – Greenspan Mall	2,077,534	3,472,423
Service charge account – Greenspan Mall	1,232,604	7,097,681
Service charge account – Starling Park Properties	4,632,175	5,218,599
Rent collection account – Bay Holdings	1,088,906	2,759,850
Rent collection account – Signature Assets	27,300	37,040
<b>TOTAL</b>	<b>204,096,432</b>	<b>92,875,408</b>

**(d) Units held by connected parties to the REIT**

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

Promoter Holdings as at 31 December 2021	Units	Holding (%)
ICEA LION Asset Management Limited	5,000,000	2.76

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

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

- 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 Assets 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)	2021	2020
Asset management fees – ICEA LION Asset Management Limited	70,000,000	39,500,393
Asset management fees – STANLIB Kenya Limited*	-	23,499,607
Trustee fees – Co-op Bank	22,908,441	22,588,586
Custodial fees – Co-op Bank	1,832,675	1,807,248
Other administrative fees – Co-op Bank	1,101,047	919,980
Valuation fees – Jones Lang LaSalle Kenya Ltd	2,002,934	1,933,334
Property management fees – Knight Frank Kenya Limited	14,296,375	-
Property management fees – CBRE Excellerate	3,585,653	13,557,638
<b>TOTAL</b>	<b>115,727,125</b>	<b>103,806,786</b>

\* Resigned as REIT Manager on 18 May 2020.

## 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 m<sup>2</sup> (155,477 sq.ft.) with 1,000 parking spaces.

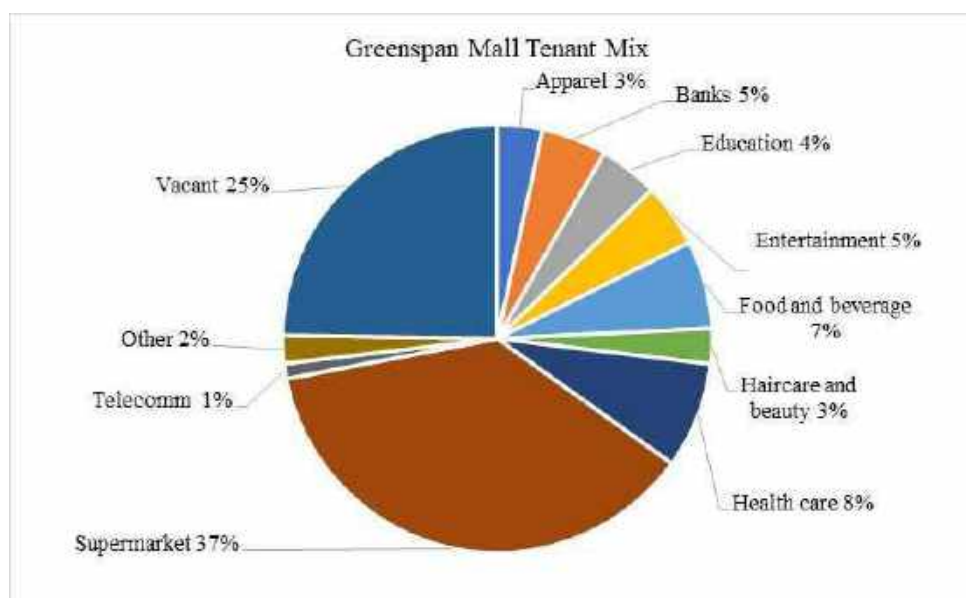
The acquisition price (on 11 December 2015) was KShs. 2,093,576,710.

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 date 1 September 2007 at peppercorn rent, if demanded. As at 31 December 2021, the property has an unexpired leasehold term of 85 years.

The mall has a parking ratio in excess of 4 bays per 100 m<sup>2</sup> of GLA, has a middle income catchment 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 represents a location with potential to improve the returns through development of excess land and reconfiguration of the mall/ tenant mix. Anchored by Naivas, it offers fast food restaurants and bars, as well as various service-related tenants such as banks, wellness centres, entertainment centres, cinema, salons and small non-branded fashion and apparel component. The anchor tenant occupies 37% of the GLA while the balance is occupied by services, food, clothing, healthcare and apparel.

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



### SIGNATURE ASSETS 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 acres with a land-lease term of 99 years commencing 1 July 1956, and registered as Title Number I.R 22130. As at 31 December 2021, the property has an unexpired leasehold term of 34 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 m<sup>2</sup> (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.

### 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 acres 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 27 years as at 31 December 2021.

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 m<sup>2</sup> (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 93 years, 4 months as at 31 December 2021.

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 m<sup>2</sup> (41,312 sq.ft.). The property has basement parking. The building is single tenanted.



**SUMMARY OF RECENT VALUATIONS**

The investment properties were revalued by Jones Lang LaSalle Kenya Ltd as at 31 December 2021 and 31 December 2020. The market values at revaluation are summarized below:

Transaction	2021	2020
<b>Greenspan Mall</b>	2,202,200,000	2,400,000,000
<b>Starling Park Properties LLP</b>	841,400,000	847,200,000
<b>Bay Holdings</b>	189,700,000	204,900,000
<b>Signature Assets</b>	24,700,000	29,300,000
<b>TOTAL</b>	<b>3,258,000,000</b>	<b>3,481,400,000</b>

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**

The retail sector witnessed a mix of fortunes amid the relaxation of the COVID-19 pandemic protocols, roll out of vaccines and resumption to a degree of normalcy. Strategically located and more established malls exhibited better resilience throughout the lockdown periods in the first half of year 2021, partly owing to their strong anchor and sub-anchor tenants.

Overall, the COVID-19 pandemic, economic downturn coupled with the development boom over the past decade continued to negatively affect the retail sector resulting in a 'buyer's market' with landlords having to offer tenants incentives to boost occupancy. Even as normalcy slowly returned in the second half of 2021, the recovery was not immediate. It is expected that the negative impacts on the sector will still be felt over the short to medium term. Sitting tenants continued to renegotiate rents, which led to a drop in passing rents, especially in centers with high vacancies. Market rents remained flat or reduced while vacancies took longer to fill than initially anticipated. This resulted in a desire to shift towards shorter, more flexible lease structures and turnover leases which is likely to fundamentally change retail real estate.

During the year under review, there were several expansions and closures by many prominent retailers. Existing local and international retail brands continued to expand into established malls located in large catchment areas over the review period including Naivas, Quickmart, Chandarana, Carrefour, Artcaffe, Java, and KFC. Local fashion brand, Alladin, opened at the Junction and local house and kitchenware retailer, Homes and Beyond, opened at Sarit Centre. American luggage retailer, Samsonite, opened their doors at The Hub. On the flip side, Massmart's planned exit following previous similar exits of South African retailers, Shoprite and Botswana-based Choppies.

Online shopping and deliveries continued to gain traction supported by growth in internet usage as retailers fast track their online presence to reach their consumers. 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. Online retailing is but one facet of the technological evolution happening in real estate known as PropTech. Other innovations include transaction platforms, management platforms, blockchain and virtual reality solutions.

In their H2 2021 report, Knight Frank states that the supply of enclosed malls remained subdued in 2021, with the most notable completion during the period being Phase II of City Mall in Mombasa, which increased the lettable area by circa 77,000 sq.ft. in 2021. To counter this pessimistic outlook, landlords and retailers have to strategize to enable them to survive in the weak business environment and climate of growing competition.

## OFFICE

The main demand drivers for office space in Nairobi remained Small and Medium-Sized Enterprises (SMEs), which are the key drivers of 'Kenya's economy. The sector has seen tremendous supply growth over the past five years. This was exacerbated by the limited expansion of key economic sectors and the general slowdown of the economy vis-à-vis the COVID-19 pandemic. The impending elections (scheduled for August 2022) are also hampering demand, as corporates await the outcome of the elections before making key real estate investment decisions.

According to Knight Frank, a significant amount of office space was released into the Nairobi office market in the 2<sup>nd</sup> half of 2021. This included: the iconic mixed-use Global Trade Centre (GTC), which comprises offices, retail, residential and a hotel - the office component has circa 625,000 sq.ft. of lettable area; Hazina Trade Center (234,000 sq.ft.) in the CBD; The Convex (250,000 sq.ft.), and Riverside Square (94,000 sq.ft.), both in Nairobi's Riverside area.

Asking rentals have been slowly eroding in the last three to four years, especially in the most oversupplied nodes. The availability of higher quality more recently completed stock has also negatively impacted rentals in older buildings throughout the city. Going forward, occupiers are expected to keep good leverage towards landlords in the short term. Despite the gradual increase in product quality, asking rentals are unlikely to increase in the short term. According to a Knight Frank report, in Kenya, prime office rents averaged KShs 120 - 130 per square foot per month. Coworking and the financial services sectors anchored the absorption, which improved occupancies to 78% up from 73% in the 1<sup>st</sup> half of 2021.

Despite the apparent pockets of stability and resilience in the office market, we expect headline rents to remain subdued for the remainder of 2022. We also expect that the occupancy rates will fall because of the large amount of space released in the market towards the end of 2021.

## INDUSTRIAL

Appetite for industrial stock across Africa remained strong, with investors attracted to the sector's strong income profile and positive market fundamentals such as rising urbanization levels, e-commerce, intra-regional trade, and growth across various sectors, including manufacturing and retail, all of which is driving demand for urban logistics facilities.

Occupancy levels are likely to drop amongst lower-grade industrial stock over the medium term as newer, better-quality spaces come to market. This is evident as occupiers increasingly chose to relocate from traditional industrial clusters in central Nairobi to decentralized industrial nodes such as Ruiru, Mlolongo, and Tatu City.

More affordable land parcels, improved infrastructure, and enhanced supply chain integration are the primary factors driving these relocations (JLL, 2020).

According to the Africa Logistics and Industrial Review H2 2021, prime rental rates remained at USD 0.6 per sq .ft. per month for H2 2021, similar to 2020. Investor focus continued to be for strategically located assets, more so in locations that have favorable development policies such as Special Economic Zone (SEZ) status. The three main drivers for warehousing demand are<sup>1</sup>:

- **E-commerce:** According to Statista<sup>2</sup>, online sales revenue increased by 28% to USD 27 billion in 2020 compared to 2019 across Africa. This uptick in online retail sales is set to continue.
- **Infrastructure development:** The fast-paced development of major industrial projects in recent years has played a role in transforming the warehousing and logistics sector. In Kenya, for example, the development of new road networks, dry ports and railway lines has resulted in an expansion of prime warehousing.
- **Governance:** Across Africa, most governments have ramped up initiatives on manufacturing and industrialization as part of measures to boost economic activities. Such initiatives include the creation of Special Economic Zones (SEZs) and the development of industrial parks.

Demand for the best warehouses continues to eclipse supply. In Kenya, developers have delivered over 1.83 million sq.ft. of speculative prime warehousing: Improvon and Africa Logistics Properties (ALP) have been major players in this sector. We expect the sector to continue its upward trajectory.

<sup>1</sup>Knight Frank. (2021). Africa logistics and industrial review: H2 2021

<sup>2</sup><https://www.statista.com/topics/7288/e-commerce-in-africa/#dossierKeyfigures>

## REGULATORY LIMITS

Regulation	Regulatory Limit	Actual as at 31 December 2021	Complied (✓) / Not Complied (X) / N/A
Minimum number of REIT securities holders	7	5,787	✓
Minimum Free Float	25%	100%	✓
Minimum Promoter investment and retention*	25% of NAV	2.76%	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%	89%**	✓

\*Regulation 74 (minimum retained investments by the Promoter and lock-in period) does not apply to ICEA LION Asset Management Limited in its capacity as the Promoter as it neither sold nor transferred real estate to the REIT Scheme since it was appointed as the REIT Manager.

\*\* This is in respect of the proposed distribution to be paid out by 30 April 2022.

## 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.

## STRATEGIC REVIEW AND IMPACT ON THE ANNUAL GENERAL MEETING (AGM)

The REIT Manager and the Trustee have undertaken a strategic review which, if approved and implemented, may involve an operational restructuring of the REIT. The completion of the process is subject to, inter alia, regulatory and unitholders approvals. A detailed announcement including all the relevant information on the proposed process will be available on the REIT's website, [www.ilamfahariireit.com](http://www.ilamfahariireit.com) at an appropriate time. Due to the aforementioned, the AGM is expected to take place at a later date than usual.

## 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 %
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
<b>All direct eligible real estate:</b>		
a) Freehold	None	None
b) Leasehold	None	None
<b>All indirect eligible real estate:</b>		
a) Freehold held through investee companies or investee trusts	N/A	N/A
b) Leasehold held through investee companies or investee trusts	None	None
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorisation	N/A	75%
Land and cost of construction Regulation 70 Maximum 15% TAV	None	None
Cash, Deposits, bonds and money market instruments Regulation 65 (11) Maximum 5% to single issuer, institution, or members of group	5%	0%
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
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%
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
Other assets (eligible) include description	None	None
Other assets (not eligible) include description	None	None



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

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
N/A	N/A	N/A	N/A
None	None	None	None
None	None	None	None
N/A	N/A	N/A	N/A
None	Refer to financials	Refer to financials	31.12.2021
None	90%	91%	31.12.2021
None	None	None	None
5%	0%	0%	31.12.2021
N/A	N/A	N/A	N/A
10%	0%	0%	None
N/A	N/A	N/A	N/A
None	None	None	None
None	None	None	None

## MEETINGS OF REIT SECURITIES HOLDERS

The fifth Annual General Meeting ("AGM") for REIT securities holders was held on 16th April 2021 via electronic means. The meeting was quorate with 27.8% of the unitholders (by number of units held in the REIT) present in person or by proxy.

The purpose of the meeting was to:

- consider and approve the Consolidated Annual Report and the Audited Annual Financial Statements for the financial year ended 31st December 2020.
- note and ratify the first and final distribution for the year ended 31st December 2020, of KShs. 108,583,380 (60 cents per unit in issue) as recommended by the REIT Manager and approved by the Trustee.
- note that KPMG continue as Auditors of the REIT;
- ratify the remuneration of the REIT Manager for the financial year ended 31 December 2020 as disclosed in the annual report;

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 at a later date. The AGM notice and proxy forms will be published closer to the time.

## APPROVAL OF THE REIT MANAGER'S REPORT

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



**ANDREW NDEGWA**

**Chairman, ICEA LION Asset Management Limited**

**Date: 29 March 2022**



**EINSTEIN KIHANDA**

**Chief Executive Officer, ICEA LION Asset Management Limited**



**ILAM**  
FAHARI I-REIT

## 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 Assets 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	No matter arising that needed the Authority to be notified
(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	There were no matters that necessitated such action to be taken by the Trustee
(e) Meetings of REIT securities holders convened by the trustee, resolutions put and the outcome of voting	<p>The Trustee, pursuant to the Capital Market Authority's approval, convened and held the 5th REIT AGM of the securities holders on 16th April 2021 via electronic means where unit holders duly attended and considered the below agenda items as follows:</p> <ul style="list-style-type: none"> <li>• Considered and approved the Consolidated Annual Report and the Audited Financial Statements for the financial year ended 31st December 2020.</li> <li>• Unit Holders noted and ratified the first and final distribution for the year ended 31st December 2020, of KShs. 108,583,380 (60 cents per unit in issue) as recommended by the REIT Manager, approved by the Trustee and paid to unit holders in April 2021.</li> <li>• Unit holders 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.</li> <li>• Unit Holders ratified the remuneration of the REIT Manager for the financial year ended 31st December 2020 as disclosed in the annual report.</li> </ul>

**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**

The Trustee convened the 5th AGM of the unit holders on 16th April 2021 via electronic means. Attendees to the meeting (as noted at the commencement of the meeting) were 103 unitholders both in person and in proxy representing 52,506,454 units representing 27.84% of units in issue. Resolutions put to the unitholders were as above and were voted for unanimously.

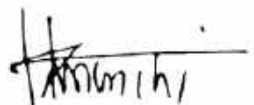
**3. Trustee's opinion on whether the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and REITs Regulations**

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 occasioned by the COVID-19 pandemic, businesses continued to have challenges even as the economy showed signs of recovery. As a result, the REIT's overall performance continues to feel the impact as highlighted in the unaudited financial report.

Signed by



**HENRY KARANJA**

**The Compliance Officer**

**The REIT Trustee**

**The Co-operative Bank of Kenya Limited**

**Date: 29 March 2022**





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**ILAM**  
FAHARI I-REIT

## COMPLIANCE REPORT

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## 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 2021:

1. In line with the regulatory requirements, the audited annual financial statements for the REIT for the year ended 31st December 2020, were submitted to the relevant authorities and published within the prescribed timelines.
2. The REIT is compliant with Regulation 65(6) of the regulations which requires that investment property should form at least 75% of the total net asset value of the Fund.
3. 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.
4. All statutory reports to the Capital Markets Authority and Nairobi Securities Exchange were filed within the prescribed timelines.
5. The half year unaudited financial statements were published in two local daily newspapers as required.
6. The Annual General Meeting for the year ended 31.12.2020 was held on 16th April 2021.
7. 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: NONE
  - 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: NONE
  - 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:
    - i. **Tribunal Case No. E367 OF 2021 (Nairobi):** The Trustee instructed the REIT Manager to issue a distress for rent against Mobil Energy Limited, a tenant in Greenspan Mall, for unpaid rent to Kes 2,365,605.53. The REIT Manager appointed an auctioneer to recover the rent by way of auctioning the tenant's assets in the leased premises. On 30th July 2021 the tenant filed a case seeking a stay of the auction; the REIT Manager through the firm of Mboya, Wangong'u & Waiyaki filed a preliminary objection on 27th August 2021 challenging the Tribunal's jurisdiction as there was an existing written lease running for a period exceeding 5 years with no termination clause. The decision of the tribunal on the preliminary objection was delivered on 15th December 2021 upholding the objection. The matter has however moved to the Chief Magistrates court and further updates will be provided in subsequent reports.
  - d. An update of any matters reported in prior periods and action taken to rectify:
    - i. **Nairobi ELC No. 102 of 2019 (Douglas Mwangi Kirungu vs Greenspan Mall Limited and STANLIB Fahari I-REIT):** The matter came up for mention on 16.11.2021 where the tenant was unwell and not present for the mention and his Advocate stated that he was still unable to get full instructions on the case since taking over. Greenspan Mall's advocate requested the Court to give firm directions to the Advocate to get full instructions from his Client before the next mention date as the matter had failed to progress due to the same reason on previous occasions. The matter shall next be mentioned on 21.2.2022 where the tenant's Advocate is expected to have full instructions from his Client.

- ii. **Commercial and Tax Division Insolvency Cause No. E018 of 2020 TUSKER MATTRESSES LIMITED and THE INSOLVENCY ACT (ACT NO. 18 OF 2015):** The Trustee is pursuing unpaid rent from Tuskys via Insolvency Cause No. E018 of 2020. Tuskys objected to the request by the creditors to liquidate the company and seeking injunctive orders to stop any creditor from instituting proceedings against it as they sought to restructure their business. The latest court date on the matter was on 26th November 2021 where the court delivered a ruling giving Tuskys 30 days to file a report on the progress of the restructuring plan it is seeking to revive its business and subsequently pay its creditors. The court shall after the expiry of this period make a decision on whether there shall be further adjournment to the hearing of the liquidation petition. The mention was set for January 28, 2022.

Signed by



**OLGA OMALLA**

**Compliance Officer: ICEA LION Asset Management Limited**

**Date: 29 March 2022**



**ILAM**  
FAHARI I-REIT

## 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 66 to 101 which comprise the consolidated statement of financial position as at 31 December 2021, 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 consolidated 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 29 March 2022.



**ANDREW NDEGWA**

**Chairman, ICEA LION Asset Management Limited**

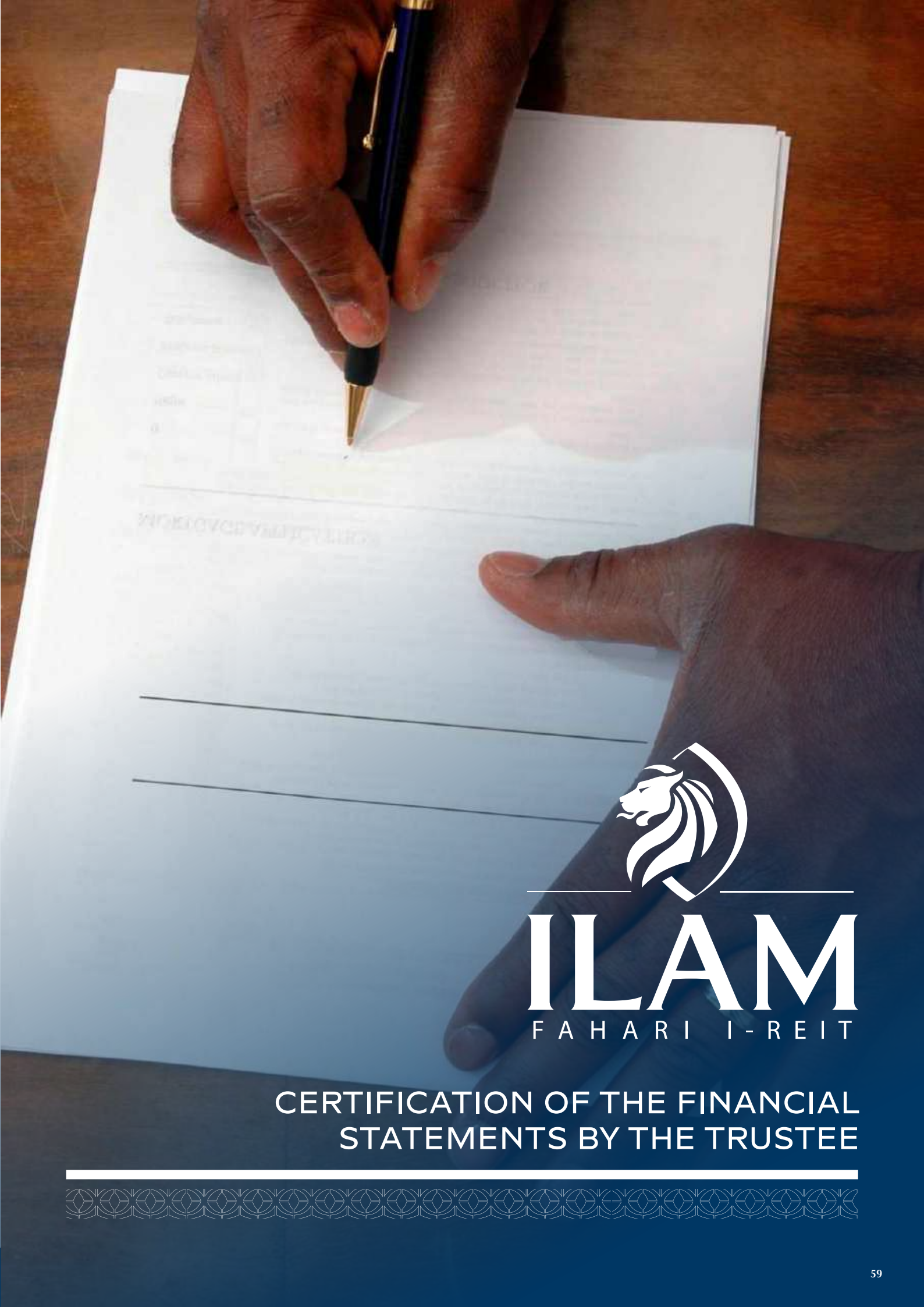


**EINSTEIN KIHANDA**

**Chief Executive Officer, ICEA LION Asset Management Limited**

**Date: 29 March 2022**





**ILAM**  
FAHARI I-REIT

**CERTIFICATION OF THE FINANCIAL  
STATEMENTS BY THE TRUSTEE**

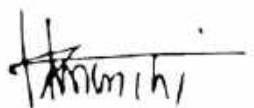


## CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

The Trustee has considered and reviewed the consolidated financial statements of the ILAM Fahari I-REIT for the year ended 31 December 2021, 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 2021 and of the consolidated profit or loss for the year then ended.

**Certified on behalf of The Co-operative Bank of Kenya Limited on 29 March 2022 by:**

Signed by



**HENRY KARANJA**

**Trustee Compliance Officer**

**The Co-operative Bank of Kenya Limited**



**ILAM**  
FAHARI I-REIT

**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 ("the REIT") as set out on pages 66 to 101 which comprise the consolidated statement of financial position as at 31 December 2021, 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 ILAM Fahari I-REIT as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRs) and in the manner required by 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 consolidated 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)	
<p>Valuation of investment properties is considered a key audit matter because:</p> <p>The REIT owns four investment properties which represent 88% of its total assets on the consolidated statement of financial position as at 31 December 2021. These investment properties are stated at their fair values based on independent external valuations.</p> <p>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 discount and terminal yield rates and a small change in the assumptions can have a significant impact to the valuation.</p>	<p>Our audit procedures in this area included:</p> <ol style="list-style-type: none"> <li>Obtain an understanding of the valuation process which included evaluation of experts engaged by the REIT to perform independent valuations as well as testing the design and operating effectiveness of controls over management review of assumptions used in valuation of investment property.</li> <li>Evaluating the appropriateness of the valuation methodologies used. This included assessing the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. The team applied sensitivity analysis on the various inputs used and assessed the changes noted if they were reasonable. We also challenged the 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.</li> <li>Evaluating the adequacy of financial statements disclosures, including disclosures of key judgements and assumptions used in determining fair values in accordance with the requirements of IFRS 13 <i>Fair Value Measurements</i>.</li> </ol>

#### Other information

The REIT Manager is responsible for the other information. The other information comprises the information in the ILAM Fahari I-REIT Annual Report and Financial Statements for the year ended 31 December 2021 but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013.

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





## **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 (Continued)**

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

#### **REIT Manager's responsibility for the consolidated financial statements**

The REIT Manager is responsible for the preparation of the 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.

#### **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 consolidated 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 inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.



## 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)

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

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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 also 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the REIT Manager, 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.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha, practising certificate number - P/1610.*

For and on behalf of:  
KPMG Kenya  
Certified Public Accountants  
PO Box 40612-00100  
Nairobi, Kenya  
Date: 29 March 2022

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 KShs	2020 KShs
<b>Revenue</b>		<b>265,670,495</b>	<b>324,669,579</b>
Rental and related income	5	297,549,052	341,156,587
Straight-lining of lease income	12	(31,878,557)	(16,487,008)
<b>Other income</b>		<b>33,972,521</b>	<b>22,875,975</b>
Interest income	6	25,664,245	22,412,016
Sundry income	7	8,308,276	463,959
<b>Operating expenses</b>		<b>(229,548,302)</b>	<b>(229,611,646)</b>
Property expenses	8	(122,048,628)	(130,361,698)
Fund operating expenses	9	(107,499,674)	(99,249,948)
<b>(Decrease)/increase in fair value of investment property</b>		<b>(194,045,724)</b>	<b>30,091,205</b>
Fair value adjustment to investment property	11	(225,924,281)	13,604,197
Straight-lining of lease income	12	31,878,557	16,487,008
<b>(Loss)/profit for the year</b>		<b>(123,951,010)</b>	<b>148,025,113</b>
Other comprehensive income		-	-
<b>Total comprehensive income attributable to unitholders for the year</b>		<b>(123,951,010)</b>	<b>148,025,113</b>
Basic earnings per unit (KShs)	10	(0.68)	0.82
Headline earnings per unit (KShs)	10	0.39	0.65
Supplementary information: Distributable earnings per unit (KShs)	10	0.56	0.74

The notes set out on pages 70 to 101 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 KShs	2020 KShs
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	11	3,258,000,000	3,481,400,000
Fair value of investment property for accounting purposes		3,194,079,844	3,385,601,287
Straight-line lease accrual	12	63,920,156	95,798,713
Property and equipment	13	13,272,024	14,525,608
		<b>3,271,272,024</b>	<b>3,495,925,608</b>
<b>Current assets</b>			
Term deposits	14	246,686,432	150,437,699
Trade and other receivables	15	74,273,158	39,610,337
Cash and cash equivalents	16	120,294,160	197,772,556
		<b>441,253,750</b>	<b>387,820,592</b>
<b>TOTAL ASSETS</b>		<b>3,712,525,774</b>	<b>3,883,746,200</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves (Page 68)</b>			
Trust capital	17	3,479,540,745	3,479,540,745
Fair value reserve	18	(85,506,797)	140,417,484
Retained earnings		149,170,399	155,780,508
		<b>3,543,204,347</b>	<b>3,775,738,737</b>
<b>Current Liabilities</b>			
Trade and other payables	19	<b>169,321,427</b>	<b>108,007,463</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,712,525,774</b>	<b>3,883,746,200</b>

The consolidated financial statements set out on pages 66 to 101 were approved and authorised for issue by the REIT Manager and by the Trustee on 29 March 2022 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 70 to 101 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Trust Capital KShs	Fair value reserve KShs	Retained earnings KShs	Total KShs
<b>2021</b>				
<b>Balance at 1 January 2021</b>	3,479,540,745	140,417,484	155,780,508	3,775,738,737
<b>Total comprehensive income</b>				
Loss for the year	-	-	(123,951,010)	(123,951,010)
Transfer to non-distributable reserve (Note 18)	-	(225,924,281)	225,924,281	-
<b>Transactions with owners of equity</b>				
Distribution to unitholders	-	-	(108,583,380)	(108,583,380)
<b>Balance at 31 December 2021</b>	<b>3,479,540,745</b>	<b>(85,506,797)</b>	<b>149,170,399</b>	<b>3,543,204,347</b>
	Trust Capital KShs	Fair value reserve KShs	Retained earnings KShs	Total KShs
<b>2020</b>				
<b>Balance at 1 January 2020</b>	3,479,540,745	126,813,287	157,088,817	3,763,442,849
<b>Total comprehensive income</b>				
Profit for the year	-	-	148,025,113	148,025,113
Transfer to non-distributable reserve (Note 18)	-	13,604,197	(13,604,197)	-
<b>Transactions with owners of equity</b>				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
<b>Balance at 31 December 2020</b>	<b>3,479,540,745</b>	<b>140,417,484</b>	<b>155,780,508</b>	<b>3,775,738,737</b>

The notes set out on pages 70 to 101 form an integral part of these consolidated financial statements.



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

	Note	2021 KShs	2020 KShs
<b>Cash flows from operating activities</b>			
Cash generated from operations	20	129,877,998	160,356,537
<b>Net cash inflow from operating activities</b>		<b>129,877,998</b>	<b>160,356,537</b>
<b>Cash flows from investing activities</b>			
Additions to investment property	11	(2,524,281)	(11,195,803)
Additions to property and equipment	13	-	(210,150)
Net (increase) /decrease in term deposits		(96,248,733)	88,488,054
<b>Net cash (used in) / generated from investing activities</b>		<b>(98,773,014)</b>	<b>77,082,101</b>
<b>Cash flows from financing activities</b>			
Distribution paid	17	(108,583,380)	(135,729,225)
<b>Net cash outflow from financing activities</b>		<b>(108,583,380)</b>	<b>(135,729,225)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(77,478,396)</b>	<b>101,709,413</b>
Cash and cash equivalents at beginning of year		197,772,556	96,063,143
<b>Cash and cash equivalents at end of year</b>	16	<b>120,294,160</b>	<b>197,772,556</b>

The notes set out on pages 70 to 101 form an integral part of these consolidated financial statements.



# ILAM

FAHARI I-REIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



# SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Retail KShs	Office and Light Industrial KShs	Fund KShs	Total KShs
<b>Revenue</b>	<b>161,152,693</b>	<b>104,517,802</b>	<b>-</b>	<b>265,670,495</b>
Rental and related income	141,509,683	100,537,508	-	242,047,191
Recoveries	46,066,167	9,435,694	-	55,501,861
Straight-lining of lease income	(26,423,157)	(5,455,400)	-	(31,878,557)
<b>Other Income</b>	<b>-</b>	<b>8,308,276</b>	<b>25,664,245</b>	<b>33,972,521</b>
Interest income	-	-	25,664,245	25,664,245
Sundry income	-	8,308,276	-	8,308,276
<b>Operating expenses</b>	<b>(97,001,370)</b>	<b>(25,047,258)</b>	<b>(107,499,674)</b>	<b>(229,548,302)</b>
Property admin expenses (excluding impairment loss)	(91,282,998)	(25,062,234)	-	(116,345,232)
Impairment loss	(5,718,372)	14,976	-	(5,703,396)
Fund operating expenses	-	-	(107,499,674)	(107,499,674)
<b>Increase/(decrease) in fair value of investment property</b>	<b>(173,901,124)</b>	<b>(20,144,600)</b>	<b>-</b>	<b>(194,045,724)</b>
Fair value adjustment to investment property	(200,324,281)	(25,600,000)	-	(225,924,281)
Straight-lining of lease income	26,423,157	5,455,400	-	31,878,557
<b>Net profit/(loss) for the year</b>	<b>(109,749,801)</b>	<b>67,634,220</b>	<b>(81,835,429)</b>	<b>(123,951,010)</b>

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

	<b>Retail KShs</b>	<b>Office and Light Industrial KShs</b>	<b>Fund KShs</b>	<b>Total KShs</b>
<b>Revenue</b>	<b>224,540,683</b>	<b>100,128,896</b>	<b>-</b>	<b>324,669,579</b>
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)
<b>Other Income</b>	<b>147,331</b>	<b>343,559</b>	<b>22,385,085</b>	<b>22,875,975</b>
Interest income	26,931	-	22,385,085	22,412,016
Sundry income	120,400	343,559	-	463,959
<b>Operating expenses</b>	<b>(114,520,066)</b>	<b>(15,841,632)</b>	<b>(99,249,948)</b>	<b>(229,611,646)</b>
Property admin expenses (excluding impairment loss)	(81,198,547)	(16,044,185)	-	(97,242,732)
Impairment loss	(33,321,519)	202,553	-	(33,118,966)
Fund operating expenses	-	-	(99,249,948)	(99,249,948)
<b>Increase/(decrease) in fair value of investment property</b>	<b>92,698,591</b>	<b>(62,607,386)</b>	<b>-</b>	<b>30,091,205</b>
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
<b>Net profit/(loss) for the year</b>	<b>202,866,539</b>	<b>22,023,437</b>	<b>(76,864,863)</b>	<b>148,025,113</b>

## SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Retail KShs	Office and Light Industrial KShs	Fund KShs	Total KShs
<b>ASSETS</b>				
<b>Non-current assets</b>	<b>2,214,918,900</b>	<b>1,056,334,072</b>	<b>19,052</b>	<b>3,271,272,024</b>
Investment properties	2,202,200,000	1,055,800,000	-	3,258,000,000
Property and equipment	12,718,900	534,072	19,052	13,272,024
<b>Current assets</b>	<b>66,904,011</b>	<b>10,502,527</b>	<b>363,847,212</b>	<b>441,253,750</b>
Investment securities	-	-	246,686,432	246,686,432
Trade and other receivables	63,590,740	4,754,146	5,928,272	74,273,158
Cash and cash equivalents	3,313,271	5,748,381	111,232,508	120,294,160
<b>TOTAL ASSETS</b>	<b>2,281,822,911</b>	<b>1,066,836,599</b>	<b>363,866,264</b>	<b>3,712,525,774</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	<b>78,656,821</b>	<b>(81,083,891)</b>	<b>3,545,631,416</b>	<b>3,543,204,346</b>
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	42,963,618	40,116,109	66,090,671	149,170,398
Fair value reserve	35,693,203	(121,200,000)	-	(85,506,797)
<b>Current liabilities</b>	<b>125,714,018</b>	<b>32,283,018</b>	<b>11,324,392</b>	<b>169,321,428</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>204,370,839</b>	<b>(48,800,873)</b>	<b>3,556,955,808</b>	<b>3,712,525,774</b>



## SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Retail KShs	Office and Light Industrial KShs	Fund KShs	Total KShs
<b>ASSETS</b>				
<b>Non-current assets</b>	<b>2,413,788,650</b>	<b>1,082,114,218</b>	<b>22,740</b>	<b>3,495,925,608</b>
Investment properties	2,400,000,000	1,081,400,000	-	3,481,400,000
Property and equipment	13,788,650	714,218	22,740	14,525,608
<b>Current assets</b>	<b>43,022,944</b>	<b>11,182,470</b>	<b>333,615,178</b>	<b>387,820,592</b>
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
<b>TOTAL ASSETS</b>	<b>2,456,811,594</b>	<b>1,093,296,688</b>	<b>333,637,918</b>	<b>3,883,746,200</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>	<b>316,129,172</b>	<b>(51,881,449)</b>	<b>3,511,491,014</b>	<b>3,775,738,737</b>
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	80,111,688	43,718,551	31,950,269	155,780,508
Fair value reserve	236,017,484	(95,600,000)	-	140,417,484
<b>Current liabilities</b>	<b>64,137,217</b>	<b>34,697,255</b>	<b>9,172,991</b>	<b>108,007,463</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>380,266,389</b>	<b>(17,184,194)</b>	<b>3,520,664,005</b>	<b>3,883,746,200</b>

## 1. REPORTING ENTITY

The ILAM 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 (hereinafter "the financial statements") of the REIT for the year ended 31 December 2021 comprise the REIT and its subsidiaries, and Limited Liability Partnership (LLP) as listed below. The address of its registered office is as follows:

4<sup>th</sup> 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 Assets Limited (Formerly Signature International Limited)
- Starling Park Properties LLP

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in the manner required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 ("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.

**2. BASIS OF PREPARATION (Continued)****(d) Use of estimates and judgments (Continued)**

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.

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 2021 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.

***(i) Subsidiaries***

The subsidiaries are shown in Note 21 to the financial statements. Subsidiaries are entities controlled by the Group. 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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(a) Basis of consolidation (Continued)****(i) Subsidiaries (Continued)**

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.

***(ii) Transactions eliminated on consolidation***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (b) Financial instruments (Continued)

## (ii) Classification and subsequent measurement (Continued)

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
- 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.



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (b) Financial instruments (Continued)

## (ii) Classification and subsequent measurement (Continued)

**Financial assets – Subsequent measurement gains and losses**

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend are recognised in profit or loss.
<b>Financial assets at amortised cost</b>	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.
<b>Debt investments at FVOCI</b>	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 Profit or Loss (P&L). Other net gains and losses are recognized in the Other Comprehensive Income (OCI). On derecognition , gains and losses accumulated in the OCI are reclassified to P&L.
<b>Equity investments at FVOCI</b>	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.

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (b) Financial instruments (Continued)

## (iii) Derecognition (Continued)

**(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 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (c) Tangible assets (Continued)

## (ii) Property and equipment (Continued)

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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (d) Impairment of assets (Continued)

## (i) Non-derivative financial assets (Continued)

**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 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Impairment of assets (Continued)****(ii) Non-financial assets (Continued)**

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**

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.

**(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.



**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Taxation (Continued)**

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(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.

The REIT operates in the following primary business segments:

- Retail – comprising retail outlets;
- Office – comprising office buildings and office parking;
- Industrial – industrial buildings such as warehouses and factories;
- 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (q) New standards and interpretations

**New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, and have not been applied in preparing these financial statements.

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

DESCRIPTION	EFFECTIVE DATE
<b>Newly effective standards for 01 January 2021 to 31 December 2021</b>	
COVID-19-Related Rent Concessions (amendments to IFRS 16)	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
<b>Standards available for early adoption</b>	
Covid-19 - Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	1 April 2021
Onerous Contracts – Cost of Fulfilling a contract (Amendments to IAS 37)	1 January 2022
Annual improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2023
Classification of Liabilities as Current or Non-current (Amendment to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Amendments to IFRS 17	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	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 adoption of these new standards is 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.

## 4. KEY JUDGMENTS AND ESTIMATES (Continued)

Key judgments and sources of estimation uncertainty (Continued)

**(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% (2020: 11.5% to 13.5%) 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).

**(d) 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**

	2021 KShs	2020 KShs
Rental income*	240,271,000	276,586,722
Recoveries	55,501,861	61,406,180
Promotional income	1,776,191	3,163,685
	<b>297,549,052</b>	<b>341,156,587</b>

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

**6. INTEREST INCOME**

	2021 KShs	2020 KShs
Interest on fixed deposits	23,387,709	20,120,170
Interest on call deposits	2,276,536	2,291,846
	<b>25,664,245</b>	<b>22,412,016</b>

**7. SUNDRY INCOME**

VAT written back	8,308,276	-
Bad debts recovered	-	463,959
	<b>8,308,276</b>	<b>463,959</b>

**8. PROPERTY EXPENSES**

The following items are included in property expenses:

**Other operating property expenses**

	2021 KShs	2020 KShs
Audit fees – current period	3,847,116	3,624,298
– service charge audit	853,000	859,425
Consultancy fees	2,254,425	500,000
Depreciation	1,249,897	1,295,902
Rent and rates	557,062	410,700
Postage and telephone	527,158	369,735
Sundry expenses	351,090	716,986
Bank charges	73,111	47,783
Staff expenses	59,799	70,712
Subscription	53,475	92,157
Printing and stationery	26,150	41,539
Penalties	-	20,000
Other professional fees	-	103,500
Entertainment	-	2,019
	<b>9,852,283</b>	<b>8,154,756</b>
	<b>122,048,628</b>	<b>130,361,698</b>



## 9. FUND OPERATING EXPENSES

The following items are included in fund operating expenses:

	2021 KShs	2020 KShs
Asset management fees	70,000,000	63,000,000
Trustee and custody fees	24,741,116	24,395,834
Public relations and marketing	3,252,323	2,727,066
Professional and other fees	4,190,741	4,520,504
Audit fees	3,643,363	3,323,490
Licenses	995,196	1,217,347
Consultancy	542,500	25,000
General administration	83,198	-
Bank charges	47,550	37,020
Depreciation	3,687	3,687
	<b>107,499,674</b>	<b>99,249,948</b>

## 10. BASIC AND HEADLINE EARNINGS PER UNIT

	2021 KShs	2020 KShs
Basic earnings – comprehensive income attributable to unit holders for the period	(123,951,010)	148,025,113
Adjusted for:		
Fair value adjustment to investment properties (including straight-line lease accrual movement)	194,045,724	(30,091,205)
<b>Headline earnings</b>	<b>70,094,714</b>	<b>117,933,908</b>
Adjusted for:		
Straight-line lease accrual movement	31,878,557	16,487,008
<b>Distributable earnings</b>	<b>101,973,271</b>	<b>134,420,916</b>
Distribution to unitholders (Note 17)	<b>90,486,150</b>	<b>108,583,380</b>
Distributable earnings per unit (KShs)	0.56	0.74
Distribution per unit (KShs)	0.50	0.60
Basic earnings and diluted earnings per unit (KShs)	(0.68)	0.82
Headline earnings per unit (KShs)	0.39	0.65
Weighted average units in issue (units)	180,972,300	180,972,300
Units in issue at the end of the period (units)	<b>180,972,300</b>	<b>180,972,300</b>

## 11. INVESTMENT PROPERTIES

	2021 KShs	2020 KShs
At 1 January	3,481,400,000	3,456,600,000
Additions - capital expenditure	2,524,281	11,195,803
Fair value adjustment to investment properties	(225,924,281)	13,604,197
<b>At 31 December</b>	<b>3,258,000,000</b>	<b>3,481,400,000</b>

The investment properties were independently valued by Jones Lang LaSalle Kenya (Pty) Limited as at 31 December 2021 and 31 December 2020. 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.

### Measurement of fair value

The fair values of investment property are categorised as level 3.

### 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:

	2021 %	2020 %
<b>Retail sector</b>		
Term yield	12.5	12.5
Reversionary yield	9.25	9.25
Discount rate	12.5	12.5
<b>Office and light industrial</b>		
Term yield	11.5 – 13.5	11.5 – 13.5
Reversionary yield	9.25 – 9.75	9.25 – 9.75
Discount rate	11.5 – 13.5	11.5 – 13.5

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.

## 11. INVESTMENT PROPERTIES (Continued)

## Valuation techniques and significant unobservable inputs

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment Property	<b>Discounted cash flow method:</b> The methodology uses the discounted cash flows where a discount rate (capitalisation rate) is applied to a series of cash flows for future periods to discount them to a present value.	1. Discount rate 2. Reversionary yield	The estimated fair values would increase/ (decrease) if:  1. The discount rate was lower/ (higher).  2. Reversionary yield was lower/ (higher).

## 12. STRAIGHT-LINE LEASE ACCRUAL

	2021 KShs	2020 KShs
At 1 January	95,798,713	112,285,721
Change in straight-line lease accrual through profit or loss	(31,878,557)	(16,487,008)
<b>At 31 December</b>	<b>63,920,156</b>	<b>95,798,713</b>

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

	Furniture and equipment KShs	Other equipment KShs	Total KShs
<b>2021</b>			
<b>Cost</b>			
<b>At 1 January 2021 and 31 December 2021</b>	<b>5,442,382</b>	<b>13,383,919</b>	<b>18,826,301</b>
<b>Accumulated depreciation</b>			
At start of year	2,674,162	1,626,531	4,300,693
Charge for the year	346,027	907,557	1,253,584
<b>At end of year</b>	<b>3,020,189</b>	<b>2,534,088</b>	<b>5,554,277</b>
<b>Net book value as at 31 December 2021</b>	<b>2,422,193</b>	<b>10,849,831</b>	<b>13,272,024</b>

## 13. PROPERTY AND EQUIPMENT (Continued)

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

## 14. TERM DEPOSITS

	2021 KShs	2020 KShs
Term deposits	246,686,432	150,437,699

The term deposits relate to amounts with original maturities longer than 90 days. Term deposits are invested in top tier banks.

## 15. TRADE AND OTHER RECEIVABLES

	2021 KShs	2020 KShs
Trade receivables	53,778,197	44,667,219
Service charge debtors	7,038,104	7,181,151
Less: Provision for doubtful debts	(42,209,613)	(36,506,217)
<b>Net trade receivables</b>	<b>18,606,688</b>	<b>15,342,153</b>
Value Added Tax (VAT) receivable	16,452,244	11,539,959
Prepayments	6,197,324	5,337,798
Sundry debtors	33,016,902	7,390,427
	<b>74,273,158</b>	<b>39,610,337</b>

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.

**16. CASH AND CASH EQUIVALENTS**

	2021 KShs	2020 KShs
Fixed deposits with maturities less than 90 days	-	146,459,398
Call deposits	109,194,596	18,430,635
Cash at bank	11,096,432	32,875,407
Cash at hand	3,132	7,116
	<b>120,294,160</b>	<b>197,772,556</b>

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.

**17. TRUST CAPITAL**

	2021 KShs	2020 KShs
<b>(a) Authorised as at 1 January and 31 December</b> 625,000,000 units at a nominal value of KShs. 20 per unit less capitalised unit issue costs	<b>12,500,000,000</b>	<b>12,500,000,000</b>
<b>(b) Issued and paid as at 1 January and 31 December</b> 180,972,300 units at a nominal value of KShs. 20 per unit net of unit issue costs of KShs. 139,905,255	<b>3,479,540,745</b>	<b>3,479,540,745</b>

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 16 April 2021, the unitholders approved the declaration and payment of a distribution of KShs. 108,583,380 in relation to the year ended 31 December 2020.

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

	2021 KShs	2020 KShs
KShs 0.50 (2020: KShs. 0.60) distribution per qualifying unit	<b>90,486,150</b>	<b>108,583,380</b>

The distribution of KShs. 90,486,150 has not been recognised as a liability as at 31 December 2021 as it was declared after the end of the financial reporting period (2020: KShs. 108,583,380).

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.



**18. FAIR VALUE RESERVE**

	2021 KShs	2020 KShs
At 1 January	140,417,484	126,813,287
Fair value adjustment on investment properties (Note 11)	(225,924,281)	13,604,197
<b>At 31 December</b>	<b>(85,506,797)</b>	<b>140,417,484</b>

The fair value reserve relates to the change in fair value on investment properties. The reserve is non-distributable.

**19. TRADE AND OTHER PAYABLES**

	2021 KShs	2020 KShs
Trade payables	19,715,714	9,700,567
Tenant deposits	88,816,737	62,455,942
Accruals	20,940,303	25,051,044
Other payables	39,848,673	10,799,910
	<b>169,321,427</b>	<b>108,007,463</b>

**20. CASH GENERATED FROM OPERATIONS**

<b>Net (loss)/profit for the year</b>	<b>(123,951,010)</b>	<b>148,025,113</b>
Adjusted for:		
Depreciation (Note 13)	1,253,584	1,299,589
Fair value adjustment to investment property (Note 11)	225,924,281	(13,604,197)
	<b>103,226,855</b>	<b>135,720,505</b>
<b>Working capital changes in:</b>		
Trade and other receivables	(34,662,821)	31,634,745
Trade and other payables	61,313,964	(6,998,713)
	<b>26,651,143</b>	<b>24,636,032</b>
<b>Cash generated from operations</b>	<b>129,877,998</b>	<b>160,356,537</b>

**21. RELATED PARTY TRANSACTIONS AND BALANCES****(a) Identification of related parties**

STANLIB Kenya Limited is the authorised former 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.

**21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)****(a) Identification of related parties (Continued)**

ICEA 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, the Trustee and the Property Manager earn a management fee, custodial fee and property management fee respectively, for services rendered to the REIT.

Knight Frank Kenya Limited and CBRE Excellerate are the property managers for the REIT's four investment properties; with the CBRE contract ending 31 March 2021 and Knight Frank taking over effective 1 April 2021. The property manager earns property management fees.

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 Assets Limited
- iv. Starling Park Properties LLP

**(b) Related party transactions**

	2021 KShs	2020 KShs
Asset management fee paid to ICEA LION Asset Management Limited	70,000,000	39,500,393
Asset management fee paid to STANLIB Kenya Limited	-	23,499,607
Trustee fees paid to Co-operative Bank of Kenya Limited	22,908,441	22,588,587
Custodial fees paid to Co-operative Bank Kenya Limited	1,832,675	1,807,247
Property Management fees paid to Knight Frank Kenya	14,296,375	-
Property Management fees paid to CBRE Excellerate	3,585,653	13,557,638
Other administration fees paid to Co-operative Bank of Kenya Limited for cheque writing fees	1,101,047	919,980
Bank charges paid to Co-operative Bank	47,550	84,803

The transactions with related parties are repayable on demand and are interest free.

ICEA LION Asset Management held the following units in the REIT as at 31 December 2021 (2020 – NIL).

Holder's name	Number of units	% Holding
ICEA LION Asset Management Limited	5,000,000	2.76

This transaction with the related party was at arm's length.

## 21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

## (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	2021 KShs	2020 KShs
Investment account - fixed deposits	REIT	130,000,000	50,000,000
Investment account - call deposits	REIT	63,000,000	10,000,000
Investment account	REIT	2,037,913	14,289,815
STANLIB REIT Rent Coll A/C - Greenspan Mall	Greenspan Mall Limited	2,077,534	3,472,423
Knight Frank Kenya Ltd - Greenspan Mall A/c	Greenspan Mall Limited	1,232,604	-
Excellerate Kenya Greenspan Mall Account	Greenspan Mall Limited	-	7,097,681
Knight Frank Kenya Ltd - Starling Park Properties	Starling Park Properties LLP	4,632,175	-
Starling Park Service charge account	Starling Park Properties LLP	-	5,218,599
STANLIB REIT Rent Coll A/C – Signature Assets	Signature Assets Limited	27,300	37,040
STANLIB REIT Rent Coll A/C - Bay Holdings	Bay Holdings Limited	1,088,906	2,759,850
<b>TOTAL</b>		<b>204,096,432</b>	<b>92,875,408</b>

The transactions with related party are repayable on demand and are interest free.

## 22. 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 2021 was KShs. 240,271,000 (2020: KShs. 275,263,724).

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	2021 KShs
Less than one year	233,835,087
One to two years	223,506,945
Two to three years	123,526,438
Three to four years	93,268,102
Four to five years	79,414,904
More than five years	314,718,153
<b>TOTAL</b>	<b>1,068,269,629</b>

## 22. LEASES (Continued)

**Operating leases under IFRS 16**

	2020 KShs
Less than one year	235,923,236
One to two years	288,468,662
Two to three years	163,873,003
Three to four years	50,389,674
Four to five years	12,800,246
More than five years	21,681,659
<b>TOTAL</b>	<b>773,136,480</b>

The REIT earned rental income of KShs 240,271,000 from the four subsidiaries, see Note 5

The REIT incurred property expenses of KShs 122,048,628, see Note 8.

**23. 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 8.4% in the current year (2020: 7.2%).

**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. 256,642 (2020: KShs. 224,120) lower/higher, arising mainly as a result of lower/higher interest income on cash deposits at banks.

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:

	2021 KShs	2020 KShs
Trade receivables (Note 15)	53,778,197	44,667,219
Service charge debtors (Note 15)	7,038,104	7,181,151
Sundry debtors (Note 15)	33,016,902	7,390,428
Term deposits (Note 14)	246,686,432	150,437,699
Cash and cash equivalents less cash in hand (Note 16)	120,291,028	197,765,440
	<b>460,810,663</b>	<b>407,441,937</b>

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

**Debtors ageing**

At the reporting date, the ageing of the trade receivables was as follows:

	2021 KShs	2020 KShs
Neither past due or impaired	-	1,160,166
Past due 1 – 30 days	1,558,617	1,787,683
Past due 31 – 90 days	3,847,930	33,051,925
Past due 91 – 120 days	4,859,281	8,667,445
Over 120 days	43,512,371	-
	<b>53,778,199</b>	<b>44,667,219</b>

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. 66,010,542 and bank guarantees amounting to KShs 25,230,607 is as at 31 December 2021 (2020: cash deposit – KShs 62,455,942 and bank guarantees – KShs 2,424,412).

**23. RISK MANAGEMENT (Continued)****(b) Financial risk management (Continued)****(ii) Credit risk (Continued)**

The REIT utilizes the Moody's probability of default factor for the retail industry of 12.8% (2020: 7%) to determine the expected credit losses. Where the expected credit loss is higher, a specific provision greater than the 12.8% (2020: 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 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:

	2021 KShs	2020 KShs
Balance at the beginning of the period	36,506,217	3,387,251
Movement in provision for bad debts (Note 8)	5,703,396	33,118,966
<b>Balance at 31 December (Note 15)</b>	<b>42,209,613</b>	<b>36,506,217</b>

During the year under review and comparative period, none of the bad debts were written off.

**(iii) 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.

Below is the outline of the REIT's current liabilities:

	Less than one year KShs
As at 31 December 2021: Trade payables and accrued expenses (Note 19)	169,321,427
As at 31 December 2020: Trade payables and accrued expenses (Note 19)	108,007,463

**(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 in the table on the following page:



**23. RISK MANAGEMENT (Continued)**

(c) Fair value hierarchy (Continued)

(ii) Valuation hierarchy (Continued)

	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

The fair values of investment property are categorised as level 3. 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.

2021 in KShs	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment property	-	-	3,258,000,000	3,258,000,000
<b>Total assets</b>	-	-	<b>3,258,000,000</b>	<b>3,258,000,000</b>

**2020 in KShs**

<b>Assets</b>				
Investment property	-	-	3,481,400,000	3,481,400,000
<b>Total assets</b>	-	-	<b>3,481,400,000</b>	<b>3,481,400,000</b>

**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.

**24. CAPITAL COMMITMENT**

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

	2021 KShs	2020 KShs
Greenspan Mall refurbishment	91,886,865	-
	<b>91,886,865</b>	<b>-</b>

## 25. CONTINGENT LIABILITIES

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

## 26. SUBSEQUENT EVENTS

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

### **Declaration of a distribution**

(a) In line with IAS 10, Events after the Reporting Period, the declaration of the KShs. 90,486,150 distribution in relation to the 2021 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 17 to the financial statements for the distribution declared.

(b) The REIT Manager and the Trustee have undertaken a strategic review which, if approved and implemented, may involve an operational restructuring of the REIT. The completion of the process is subject to, inter alia, regulatory and unitholders approvals. A detailed announcement including all the relevant information on the proposed process will be available on the REIT's website, [www.ilamfahariireit.com](http://www.ilamfahariireit.com) at an appropriate time.

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 <sup>2</sup> 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 & Mathews Advocates;
"LLP"	means Limited Liability Partnership;
"m <sup>2</sup> " or "sqm"	means square metres;
"MER"	means the management expense ratio as defined in the REITs Regulations;

## GLOSSARY

Term or abbreviation	Meaning
<b>"NAV"</b>	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;
<b>"NSE"</b>	means Nairobi Securities Exchange Limited, approved as a securities exchange under the Act;
<b>"Registrar"</b>	means the registrar of REIT securities in relation to ILAM Fahari I-REIT, being CDSC Registrars Limited;
<b>OCI</b>	means Other Comprehensive Income
<b>P &amp; L</b>	Profit or Loss
<b>"REIT"</b>	means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA;
<b>"REIT Manager"</b>	ICEA LION Asset Management Limited;
<b>"REITs Regulations"</b>	means the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 as may be amended or modified from time to time;
<b>"REIT Trustee" or "Trustee"</b>	means the Co-operative Bank or Co-op Bank of Kenya Limited;
<b>"SME's"</b>	means Small and Medium Enterprises;
<b>"SPV"</b>	means special purpose vehicle;
<b>"sq.ft."</b>	means square foot or square feet;
<b>"STANLIB Kenya"</b>	means STANLIB Kenya Limited, Certificate of Incorporation number C.9522;
<b>"Subsidiary" or "Subsidiaries"</b>	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;
<b>"TAV"</b>	means total asset value, being the value of all the ILAM Fahari I-REIT assets prior to any adjustments or deduction of liabilities;
<b>"Technical Engineer"</b>	means one or both of the technical engineers being, Civil Engineering Design (K) Ltd and/or LDK Africa Limited;
<b>"Trust Deed"</b>	means the trust deed between ICEA LION Asset Management Limited and Co-op Bank establishing the ILAM Fahari I-REIT property fund as an Income Real Estate Investment Trust Scheme, 30 September 2015;
<b>"Unitholder(s)" or "REIT Unitholder(s)" or "Securities holder"</b>	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;
<b>"VAT"</b>	means value-added tax as defined in the Value-Added Tax Act, 2013, as amended;





**ILAM**  
FAHARI I-REIT

ICEA LION Centre, Riverside Park,  
Chiromo Road, Westlands  
PO Box 30190 - 00100 Nairobi  
Tel: +254 (0) 20 2750000  
Mobile: 0719 071000 | 0730 151000  
Contact Centre: 0719 071999  
Email: [ilamreit@icealion.com](mailto:ilamreit@icealion.com)