

THE ICEA LION EQUITY FUND

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2021**

THE ICEA LION EQUITY FUND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS	PAGE
Trustee and professional advisors	2
Report of the Trustee	3 - 4
Statement of Trustee's responsibilities	5
Fund manager's report	6 - 7
Report of the custodian	8
Independent auditor's report	9 - 11
Financial statements:	
Statement of profit or loss and other comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16 - 27

THE ICEA LION EQUITY FUND

TRUSTEE AND PROFESSIONAL ADVISORS

CORPORATE TRUSTEE

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

REGISTERED OFFICE

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

FUND MANAGER AND ADMINISTRATOR

ICEA LION Asset Management Limited
4th Floor, ICEA LION Centre, Chiromo Road
P.O. Box 46143 - 00100
Nairobi

CUSTODIAN

Standard Chartered Bank Kenya Limited
Level 5, Standard Chartered, Chiromo
48 Westlands Road
P.O. Box 40984 - 00100
Nairobi

INDEPENDENT AUDITOR

Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092 – 00100
Nairobi

THE ICEA LION EQUITY FUND

REPORT OF THE TRUSTEE (Continued)

The Trustee has the pleasure of submitting the Fund's report together with the audited financial statements of ICEA LION Equity Fund (the "Fund") for the year ended 31 December 2021.

ESTABLISHMENT, NATURE AND STATUS OF THE FUND

The Fund was established, and is governed by a Trust Deed dated 13 February 2007 as an equity fund. The Fund is registered with the Capital Markets Authority and approved under the Income Tax Act, 2012. It is only subject to withholding tax on interest income and dividends.

The primary objective of the Fund is to seek long term capital growth and income consistent with moderate investment risk from a wide range of securities thereby allowing access to diverse investment assets and returns. It ultimately aims to mobilize savings and allow access to investment assets and returns in equities otherwise restricted to persons with access to large amounts of capital. The fund primarily invests in quoted equity securities.

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

The Fund is an approved collective investment scheme within the meaning of the Capital Markets Act, 2001; and the holders are not liable for the debts of the Fund.

FINANCIAL REVIEW

The statement of profit or loss and other comprehensive income on page 11 shows a profit of Shs 76,374,408 (2020: loss of Shs 91,206,271). As at 31 December 2021, the statement of financial position on page 12 shows unit holder balances of Shs 828,606,770 (2020: Shs 772,793,255).

PERFORMANCE RECORD

The performance record of the Fund over the past 5 years is shown below:

- a) The cumulative average growth rate of the unit holder balances invested:

	2017	2018	2019	2020	2021
Growth/(decline) rate	<u>16.66%</u>	<u>(7.25%)</u>	<u>18.24%</u>	<u>(10.16%)</u>	<u>7.28%</u>

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

	2017		2018		2019		2020		2021	
	Bid Price Shs	Offer Price Shs								
Closing unit price	<u>137.16</u>	<u>144.37</u>	<u>123.16</u>	<u>129.64</u>	<u>136.12</u>	<u>143.29</u>	<u>117.07</u>	<u>117.07</u>	<u>126.33</u>	<u>126.33</u>
Lowest unit price	<u>108.38</u>	<u>114.08</u>	<u>120.16</u>	<u>126.48</u>	<u>118.86</u>	<u>125.12</u>	<u>102.98</u>	<u>108.4</u>	<u>116.43</u>	<u>116.43</u>
Highest unit price	<u>141.29</u>	<u>148.73</u>	<u>152.08</u>	<u>160.09</u>	<u>137.62</u>	<u>144.86</u>	<u>137.00</u>	<u>144.21</u>	<u>136.52</u>	<u>136.52</u>

There were changes to both the Trust Deed and Information Memorandum after the merger of ICEA LION Unit Trusts and ICEA LION Retail Funds but no changes on Investment Management Agreement during the period under review.

THE ICEA LION EQUITY FUND

REPORT OF THE TRUSTEE (Continued)

PERFORMANCE RECORD (Continued)

c) The total Fund value, number of units and net income distributed for one unit held at the end of each period:

	2017	2018	2019	2020	2021
Net Asset Values (Shs)	782,775,951	725,409,917	857,736,927	772,793,255	828,606,770
Number of units issued	5,757,738	6,100,138	6,335,351	6,568,746	6,522,782
Net income distributed per unit (Shs)	3.16	2.95	4.61	2.97	2.16

During the year, the Unit holders of both ICEA LION Unit Trusts and ICEA LION Retail Funds unit holders approved the merger of the eight portfolios into four which resulted to growth in size of the fund.

INVESTMENT

Under the terms of their appointment, ICEA LION Asset Management Limited is responsible for the investment of funds. The overall responsibility for investment and performance lies with the Trustee.

MEMBERSHIP

As at 31 December 2021, the Fund had 600 members (2020: 227 members).

FUND ADVISORS

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

TERMS OF APPOINTMENT OF AUDITORS

Deloitte & Touche, LLP retire from office at the conclusion of the next Annual General Meeting. The Trustee monitors the effectiveness, objectivity and independence of the auditor. The Trustee also approves the annual engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE TRUSTEES
For: KCB BANK KENYA LTD.

.....
KCB Bank Kenya Limited CORPORATE TRUSTEE

30 March 2022

For: KCB BANK KENYA LTD.

.....
CORPORATE TRUSTEE

THE ICEA LION EQUITY FUND

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Kenyan Capital Markets Act, 2001 requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Fund at the end of the financial year, and its financial performance for that year. It also requires the Trustees to ensure that the Fund maintains proper accounting records that are sufficient to show and explain the transactions of the Fund and disclose with reasonable accuracy the financial position of the Fund. The Trustees are also responsible for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other errors.

The Trustee accepts responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Capital Markets Act, 2001. They also accept responsibility for:

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

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

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

For: KCB BANK KENYA LTD.


.....
CORPORATE TRUSTEE

Signed on behalf of the Trustee
KCB Bank Kenya Limited

For: KCB BANK KENYA LTD.


.....
CORPORATE TRUSTEE

30 March 2022

THE ICEA LION EQUITY FUND

FUND MANAGER'S REPORT(Continued)

World economic output grew by an estimated 5.9% year-on-year (y-o-y) in 2021 according to the International Monetary Fund (IMF), supported by accommodative policy interventions and the acceleration of Coronavirus Disease of 2019 (COVID-19) vaccination programmes. The key challenges in the global economy during 2021 were COVID-19 related disruptions and rising inflation. We note that there is some unevenness in the pace of vaccination across different regions. Vaccination rates are higher in developed market economies compared to emerging and frontier market economies. Meanwhile, global equity indices recorded mixed results in 2021. The Morgan Stanley Capital International (MSCI) Developed and Frontier market indices recorded full-year gains of 20.1% and 16.4% respectively while the MSCI Emerging Markets index declined by 4.6% y-o-y.

In 2022, the IMF projects that global economic growth will ease to 4.4% y-o-y due to the effects of re-imposed restrictions following the Omicron variant outbreak. Rising inflation emanating from higher energy prices and supply disruptions is likely to pose a challenge for the global economy. In addition, the slowdown in China's real estate sector and slower-than-expected recovery of private consumption is likely to weigh down on growth. We note that the policy responses to global economic challenges are critical for stability going forward.

In Sub-Saharan Africa, the IMF estimates that GDP will grow by 3.7% y-o-y in 2022 compared to 4.0% y-o-y in 2021 and -1.7% y-o-y in 2020. Elevated commodity prices and relaxation of stringent restrictions are favorable for the GDP recovery. However, low vaccination rates remain a risk especially in the event of a COVID-19 resurgence.

Domestically, GDP rebounded during FY21, supported by stronger growth from the education, tourism and transport sectors. Kenya's economy grew y-o-y by 2.0%, 11.9% and 9.9% in 1Q21, 2Q21 and 3Q21 respectively following a contraction of 0.3% y-o-y in 2020. We note that the COVID-19 situation locally has improved following the December 2021 resurgence. Therefore, economic activity is likely to continue picking up in the absence of COVID-19 related restrictions. There is a risk of a slowdown in economic activity especially in the event of heightened uncertainty emanating from the August 2022 elections.

The Kenyan Shilling came under pressure and depreciated by 3.5% y-o-y to close December 2021 at 113.14. The weakening of the Kenya shilling was due to stronger dollar demand from importers. Meanwhile, inflation was contained below the Central Bank's upper target of 7.5%, averaging 6.1% in 2021 due to stability in food prices. Interest rates were on an upward trajectory in 2021 owing to investor demand for higher returns as they sought to price in the impact of Kenya shilling weakness and domestic borrowing pressures.

The Nairobi Securities Exchange (NSE) 20 Share Index, NSE 25 Share Index and the Nairobi All Share Index (NASI) rose by 1.8%, 9.6% and 9.4% respectively in 2021. At the beginning of the year, equities rallied owing to positive sentiment on the COVID-19 vaccine rollout. Later in March, the emergence of a third COVID-19 wave clawed back the earlier equity gains. Later in the year, positive earnings announcements from the banking and telecommunications sectors coupled by a gradual decline in the positivity rate locally contributed to a recovery in equities. However, foreign investor exits coupled by a COVID-19 resurgence both globally and locally later contributed to lower full-year gains.

Interest rates on government securities are likely to increase owing to Kenya shilling weakness and pressure on the domestic borrowing program. However, the Central Bank's target of stable interest rates is likely to curtail a spike in rates. Therefore, we anticipate stable but increasing interest rates this year. The equity market is likely to record positive performance in 2022 especially in the event that listed companies deliver strong earnings.

The key risks to our view are a further depreciation of the Kenya shilling and increasing domestic borrowing pressures, which could lead to higher-than-anticipated interest rates and as a result lower bond prices. In addition, we may see equities come under pressure in the event of an election related deterioration in investor sentiment or increased foreign investor exits owing to monetary policy tightening in developed markets.

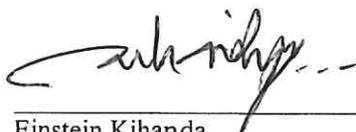
We remain committed to delivering superior returns within a very robust risk framework for all our clients whose risk and return objectives vary.

THE ICEA LION EQUITY FUND

FUND MANAGER'S REPORT(Continued)

BUSINESS REVIEW.

During the year, the Unit holders of both ICEA LION Unit Trusts and ICEA LION Retail Funds unit holders approved the merger of the eight portfolios into four. Capital Market Authority also approved the request and the merger took place during the year.



Einstein Kihanda
Chief Executive Officer
ICEA Lion Asset Management Limited

30 March 2022

THE ICEA LION EQUITY FUND

REPORT OF THE CUSTODIAN

In accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001 (the Regulations) and the Custody Agreement between Standard Chartered Bank Kenya Limited as the Custodian and ICEA LION Asset Management Limited as the Fund Manager, we confirm that for the year ended 31 December 2021:

- We have discharged the duties prescribed for a Custodian under Regulation 35 of the Regulations, to the ICEA LION Equity Fund; and
- We have held the assets for the ICEA LION Equity Fund, including securities and income that accrue thereof, to the order of the Fund Manager and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.

STANDARD CHARTERED BANK KENYA LTD.
Manager 

Gideon Chokah
Signed on behalf of the Custodian
Standard Chartered Bank Kenya Limited

30 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF ICEA LION EQUITY FUND

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ICEA LION Equity Fund (the "Fund") set out on pages 12 to 27, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with 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 judgement, were of most significance in our audit of the financial statements of the current period.

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

Other Information

The Trustee of the Fund is responsible for the other information, which comprises of the Report of the Trustee, Fund Manager's Report and the Report of the Custodian which were obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditors' report thereon.

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



INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF ICEA LION EQUITY FUND (Continued)

Other Information (Continued)

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

Responsibilities of the Trustee for the financial statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Capital Markets Authority (Collective Investment Schemes) Regulations, 2001 and for such internal controls as Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Fund'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 Trustees either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee;
- Conclude on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT
TO THE UNIT HOLDERS OF ICEA LION EQUITY FUND (Continued)

Report on Other Legal and Regulatory Requirements

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

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

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is
CPA Freda Mitambo, Practising certificate No. 2174

Freda Mitambo

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

31 March 2022

THE ICEA LION EQUITY FUND

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

	Notes	2021 Shs	2020 Shs
Interest and dividend income	4	45,709,500	43,662,639
Realised gain on sale of equity instruments		29,904,486	16,127,925
Realised gain on sale of treasury bonds		5,213,170	1,693,045
Changes in fair value of treasury	9(a)	(9,456,198)	(1,942,672)
Changes in fair value of corporate bonds	9(b)	(391,138)	60,798
Changes in fair value of equity investments	10	34,363,314	(126,744,478)
		<hr/>	<hr/>
Total income		105,343,134	(67,142,743)
Operating expenses	5	(25,193,626)	(20,721,122)
		<hr/>	<hr/>
Profit/(loss) before taxation		80,149,508	(87,863,865)
Income tax expense	6	(3,775,100)	(3,342,406)
		<hr/>	<hr/>
Profit/(loss) for the year		76,374,408	(91,206,271)
Other comprehensive income for the year		-	-
		<hr/>	<hr/>
Total comprehensive income/(loss) for the year		<u>76,374,408</u>	<u>(91,206,271)</u>

THE ICEA LION EQUITY FUND

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 Shs	2020 Shs
ASSETS			
Bank balances		323,949	393,149
Call deposits	7(a)	10,904,658	18,757,294
Fixed deposits	7(b)	183,922,720	52,526,877
Treasury bills	8	-	43,302,930
Treasury bonds	9(a)	-	108,361,210
Corporate bonds	9(b)	100	8,617,438
Equity investments	10	634,237,830	543,050,661
Other receivables		2,564,841	-
Total assets		831,954,098	775,009,559
Liabilities			
Current tax payable	6	500,112	498,052
Other payables	11	2,847,216	1,718,252
Total liabilities		3,347,328	2,216,304
Net assets		828,606,770	772,793,255
EQUITY			
Unit holder balances		828,606,770	772,793,255

The financial statements on pages 12 to 27 were approved and authorised for issue by the Trustee on 30 March 2022 and were signed on its behalf by:

For: KCB BANK KENYA LTD.

Trustee
KCB Bank Limited, Kenya

CORPORATE TRUSTEE

For: KCB BANK KENYA LTD.

CORPORATE TRUSTEE

THE ICEA LION EQUITY FUND

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

	Unit holder balances Shs
At 1 January 2020	857,736,927
Total comprehensive loss for the year	(91,206,271)
	<hr/> 766,530,656
<i>Transactions with unit holders:</i>	
Additional units purchased	17,697,084
Units liquidated	(11,434,485)
	<hr/> 6,262,599
At 31 December 2020	772,793,255 =====
At 1 January 2021	772,793,255
Total comprehensive income for the year	76,374,408
	<hr/> 849,167,663
<i>Transactions with unit holders:</i>	
Additional units purchased	46,961,527
Units liquidated	(67,522,420)
	<hr/> (20,560,893)
At 31 December 2021	828,606,770 =====

THE ICEA LION EQUITY FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 Shs	2020 Shs
Cash flows from operating activities			
Profit/(loss) before taxation		80,149,508	(87,863,866)
<i>Changes in working capital</i>			
Treasury bonds		108,361,210	33,506,430
Corporate bonds		8,617,338	(787,320)
Treasury bills		43,302,930	(41,815,481)
Equity investments		(91,187,169)	135,201,953
Other receivables		(2,564,841)	-
Other payable		1,128,964	(898,850)
Cash generated from operations		147,807,940	37,342,868
Tax paid	6	(3,773,040)	(3,100,347)
Net cash generated from operating activities		144,034,900	34,242,521
Cash flows from financing activities			
Contribution from unit holders		46,961,527	17,697,084
Withdrawals by unit holders		(67,522,420)	(11,434,485)
Net cash (used in)/generated from financing activities		(20,560,893)	6,262,599
Net increase in cash and cash equivalents		123,474,007	40,505,120
Cash and cash equivalents as at the beginning of the year		71,677,320	31,172,200
Cash and cash equivalents as at the end of the year		195,151,327	71,677,320
Represented by:			
Bank balances		323,949	393,149
Call deposits	7a	10,904,658	18,757,294
Fixed deposits	7b	183,922,720	52,526,877
		195,151,327	71,677,320

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 GENERAL INFORMATION

The Fund was established as an Equity Fund, and is governed by a Trust Deed dated 13 February 2007. The Fund is registered under the Capital Markets Authority Act, 2001 and is approved under the Income Tax Act, and is domiciled in Kenya.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the purposes of reporting under the Capital Markets Authority Act, 2001, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

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

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

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

(ii) Standards and interpretations issued but not yet effective

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

(iii) Early adoption

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") at fair value.

Functional currency and translation of foreign currencies

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'Functional Currency'). The financial statements are presented in 'Kenyan Shillings (Shs)', which is the Fund's presentation currency.

ii) Transactions and balances

Foreign currency transactions are measured using Kenya shillings, the Fund's functional currency, on initial recognition by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies, whether monetary or non-monetary, are recognised in the income statement as part of investment income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Interest income from a financial asset is recognised at a point in time when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

Dividend income from investments is recognised when the Funds' rights to receive payment as a shareholder have been established.

Financial instruments

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

Financial assets

Classification

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership

As at the reporting date, the classification of the Fund's financial assets was as follows:

- Fair value through profit or loss: treasury bills, treasury bonds, corporate bonds and equity investments; and
- At amortised cost: bank balances, call deposits and fixed deposits

The Fund determines the appropriate classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated. These assets are carried at fair value and any changes in the fair value recognised in profit or loss.

(ii) Financial assets at amortised cost

Debt instruments are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL:

- a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and
- b) the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These assets, bank deposits, cash and bank placements are carried at amortised cost.

The Fund recognises a loss allowance for expected credit losses on investments in financial instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Fund recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(ii) *Definition of default*

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

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

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

The Fund write-offs debt only when there is objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

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

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

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Fund in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at the original effective interest rate.

The Fund recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Financial liabilities

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

The fund liabilities include Management fees, CMA fees, audit fees, trustee fees, custody fees outstanding as at 31 December 2021

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Comparatives

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE FUND'S ACCOUNTING POLICIES

In the process of applying the Fund's accounting policies, management has made estimates and judgements in valuation of financial instruments as discussed in note 2. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There are no critical judgments or estimations that the Trustees have made in the process of applying the Fund's accounting policies that have a significant effect on the amounts recognised in financial statements.

	2021 Shs	2020 Shs
4 INTEREST AND DIVIDEND INCOME		
Interest income:		
Interest on fixed deposits	3,843,083	2,132,637
Interest on call deposits	2,806,119	3,139,288
Interest on treasury bills	3,022,456	282,460
Interest on treasury and corporate bonds	12,471,817	16,075,758
	<hr/>	<hr/>
Total interest income	22,143,475	21,630,143
Dividend income	23,566,025	22,032,496
	<hr/>	<hr/>
Total interest and dividend income	45,709,500	43,662,639
	<hr/> <hr/>	<hr/> <hr/>
5 OPERATING EXPENSES		
Management fees	20,063,593	16,668,150
Custodial fees	2,331,261	2,023,796
Trustee fees	1,949,516	1,517,847
Audit fees	680,816	436,997
Capital Markets Authority fees	38,425	38,219
Other expenses	130,015	867
Fund bank charges	-	35,246
	<hr/>	<hr/>
	25,193,626	20,721,122
	<hr/> <hr/>	<hr/> <hr/>

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021 Shs	2020 Shs
6 TAXATION		
Income tax expense:		
Charge for the year	3,775,100	3,342,406
	<u> </u>	<u> </u>
Current tax payable:		
At 1 January	498,052	255,993
Charge for the year	3,775,100	3,342,406
Tax paid during the year	(3,773,040)	(3,100,347)
	<u> </u>	<u> </u>
At 31 December	500,112	498,052
	<u> </u>	<u> </u>

The income tax is based on 5% for dividends, 15% corporate bonds, fixed deposits, call deposits and treasury bills interest and 10% on treasury bonds interest above 10 years.

	2021 Shs	2020 Shs
7 (a) CALL DEPOSITS		
Maturing within 90 days	10,900,000	18,550,000
Accrued interest	4,658	207,294
	<u> </u>	<u> </u>
At 31 December	10,904,658	18,757,294
	<u> </u>	<u> </u>
(b) FIXED DEPOSITS		
Maturing within 364 days	181,000,000	50,912,500
Accrued interest	2,922,720	1,614,377
	<u> </u>	<u> </u>
	183,922,720	52,526,877
	<u> </u>	<u> </u>

The weighted average effective interest rate realised on short term deposits during the year ended 31 December 2021 was 6.94% (2020: 6.72% p.a.).

	2021 Shs	2020 Shs
8. TREASURY BILLS – <i>At amortized costs</i>		
Maturity within 360 days		
At face value	-	43,033,020
Accrued interest	-	269,910
	<u> </u>	<u> </u>
At 31 December	-	43,302,930
	<u> </u>	<u> </u>

The weighted average effective interest rate realised on treasury bills during the year ended 31 December 2021 was 4.04 % (2020: 9.85 % p.a.)

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 INVESTMENT – *At fair value through profit or loss*

	2021 Shs	2020 Shs
(a) Treasury bonds		
At 1 January	108,361,210	141,867,640
Purchases	5,000,000	-
Withdrawals/Maturities	(103,905,012)	(31,563,758)
Changes in fair value	(9,456,198)	(1,942,672)
	<u> </u>	<u> </u>
At 31 December	-	108,361,210
	<u>=====</u>	<u>=====</u>

The weighted average effective interest rate realised on the treasury bonds during the year ended 31 December 2021 was 12.56% (2020: 12.90% p.a.).

	2021 Shs	2020 Shs
(b) Corporate bonds		
At 1 January	8,617,438	7,830,118
Purchases	372,100	726,522
Withdrawals/maturities	(8,598,300)	-
Changes in fair value	(391,138)	60,798
	<u> </u>	<u> </u>
At 31 December	100	8,617,438
	<u>=====</u>	<u>=====</u>

The weighted average effective interest rate realised on corporate bonds during the year ended 31 December 2021 was 12.89% (2020: 12.60% p.a.).

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 EQUITY INSTRUMENTS - At fair value through profit and loss

	Number of shares			31 December 2021 Units	1 January 2021 Shs	Market Value		Fair value gain/(loss) Shs	31 December 2021 Shs
	1 January 2021 Units	Additions Units	Disposal Units			Additions Shs	Disposals Shs		
Bamburi Cement Limited	291,700	50	-	291,750	11,040,845	-	-	45,655	11,086,500
British American Tobacco Kenya	77,500	7,000	-	84,500	27,977,500	3,257,354	-	6,071,896	37,306,750
Diamond Trust Bank Kenya Ltd	243,168	5,960	-	249,128	18,237,600	-	-	(3,414,484)	14,823,116
East African Breweries Limited	357,600	36,800	-	394,400	55,159,800	6,533,318	-	3,382,882	65,076,000
Equity Group Holdings Plc	1,436,900	211,460	-	1,648,360	52,518,695	9,710,966	-	24,721,329	86,950,990
Stanbic Holdings Plc	280,535	14,100	-	294,635	23,845,475	1,297,985	-	563,444	25,706,904
The Co-operative Bank of Kenya	2,497,280	369,480	(45,000)	2,821,760	31,216,000	3,857,857	(683,100)	2,151,035	36,541,792
KCB Group Plc	1,466,458	248,510	-	1,714,968	55,872,050	9,505,045	-	12,568,201	77,945,296
Kenya Power and Lighting Co	75,700	-	-	75,700	129,447	-	-	3,028	132,475
StanChart Bank of Kenya	130,962	9,300	-	140,262	18,891,269	1,279,477	-	(2,182,143)	17,988,602
NCBA Group Plc	1,063,020	97,013	-	1,160,033	28,435,785	1,887,345	-	(1,090,298)	29,232,832
Safaricom Plc	6,048,400	722,670	(1,200,000)	5,571,070	207,157,700	26,829,976	(5,508,810)	(17,056,759)	211,422,107
Kenya Reinsurance Corporation	409,600	-	-	409,600	950,272	-	-	(8,192)	942,080
Nairobi Securities Exchange	30,400	-	-	30,400	248,064	-	-	(4,864)	243,200
Jubilee Holdings Limited	35,050	2,050	-	37,100	9,954,201	-	-	1,797,224	11,751,425
Umeme Limited	194,500	-	-	194,500	1,415,960	-	-	(105,030)	1,310,930
BK Group Plc Ord 0.80	-	82,389	(82,389)	-	-	-	-	1,143,559	-
Family bank limited	-	307,000	-	307,000	-	-	-	4,605,000	4,605,000
Ilam fahari i-reit	-	120,000	-	120,000	-	-	-	751,200	751,200
Development finance company	-	22,700	-	22,700	-	-	-	420,631	420,631
	<u>14,638,773</u>	<u>2,256,482</u>	<u>(1,327,389)</u>	<u>15,567,866</u>	<u>543,050,663</u>	<u>64,159,323</u>	<u>(7,335,569)</u>	<u>34,363,313</u>	<u>634,237,830</u>

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 EQUITY INSTRUMENTS - At fair value through profit and loss (Continued)

	Number of shares				Market Value				
	I January 2020 Units	Additions Units	Disposal Units	31 December 2020 Units	I January 2020 Shs	Additions Shs	Disposals Shs	Fair value gain/(loss) Shs	31 December 2020 Shs
Bamburi Cement Limited	291,700	-	-	291,700	23,336,000	-	-	(12,295,155)	11,040,845
British American Tobacco Kenya Plc	77,500	-	-	77,500	38,750,000	-	-	(10,772,500)	27,977,500
Diamond Trust Bank Kenya Limited	203,168	40,000	-	243,168	22,145,357	4,855,680	-	(8,763,437)	18,237,600
East African Breweries Limited	357,600	-	-	357,600	70,983,600	-	-	(15,823,800)	55,159,800
Equity Group Holdings Plc	1,436,900	-	-	1,436,900	76,874,150	-	-	(24,355,455)	52,518,695
Stanbic Holdings Plc	367,277	-	(86,742)	280,535	40,125,013	-	(5,539,296)	(10,740,241)	23,845,475
The Co-operative Bank of Kenya Limited	2,497,280	-	-	2,497,280	40,830,426	-	-	(9,614,426)	31,216,000
KCB Group Plc	1,435,658	30,800	-	1,466,458	77,525,532	1,542,286	-	(23,195,768)	55,872,050
Kenya Power and Lighting Company Limited	275,000	-	(199,300)	75,700	772,750	-	(4,578,756)	3,935,451	129,447
Standard Chartered Bank of Kenya Limited	118,057	12,905	-	130,962	23,906,542	210,413	-	(5,225,687)	18,891,268
NCBA Group Plc	966,382	96,638	-	1,063,020	35,611,177	-	-	(7,175,392)	28,435,785
Safaricom Plc	6,571,900	700,200	(1,223,700)	6,048,400	207,014,850	19,495,677	(15,091,086)	(4,261,742)	207,157,699
Kenya Reinsurance Corporation Limited	2,052,400	-	(1,642,800)	409,600	6,218,727	-	(9,438,559)	4,170,104	950,272
Nairobi Securities Exchange Limited	30,400	-	-	30,400	375,440	-	-	(127,376)	248,064
Jubilee Holdings Limited	34,550	500	-	35,050	12,127,050	182,216	-	(2,355,065)	9,954,201
Umeme Limited	200,000	-	(5,500)	194,500	1,656,000	-	(96,051)	(143,989)	1,415,960
	<u>16,915,772</u>	<u>881,043</u>	<u>(3,158,042)</u>	<u>14,638,773</u>	<u>678,252,614</u>	<u>26,286,272</u>	<u>(34,743,748)</u>	<u>(126,744,478)</u>	<u>543,050,661</u>

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021 Shs	2020 Shs
11 OTHER PAYABLES		
Other payables	1,134,602	883,884
Due to related party (note 12(c))	1,712,614	834,368
	<u>2,847,216</u>	<u>1,718,252</u>

12 RELATED PARTY TRANSACTIONS AND BALANCES

ICEA LION Equity Fund (The "Fund") is managed by ICEA LION Asset Management Limited, a wholly owned subsidiary of ICEA LION Life Assurance Company Limited incorporated in Kenya. There are other entities that are related to ICEA LION Asset Management Limited through common shareholdings or common directorship.

The following transactions were carried out with related parties:

a) Unit holder balances

	2021 Shs	2020 Shs
ICEA LION Asset Management Limited	162,304	147,190
ICEA Unit Linked Fund	751,833,922	681,823,875
	<u>751,996,226</u>	<u>681,971,065</u>

b) Management fees expense:

ICEA LION Asset Management Limited	<u>20,063,593</u>	<u>16,668,150</u>
------------------------------------	-------------------	-------------------

c) Due to related party

ICEA LION Asset Management Limited	<u>1,712,614</u>	<u>834,368</u>
------------------------------------	------------------	----------------

13 FINANCIAL RISK MANAGEMENT

The Fund generates revenues for the unit holders by investing in various income generating activities. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the Fund's assets to minimise potential adverse effects on its financial performance.

(a) Credit risk

Credit risk arises from cash and deposits with banks and financial institutions and interest bearing instruments. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund.

As part of the credit risk management system, the Investment Manager and the Trustee monitor and review information on significant investments.

The credit risk on fixed deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by the banking regulator.

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

(a) Credit risk (Continued)

The tables below detail the credit quality of the Fund's financial assets as well as the Fund's maximum exposure to credit risk by credit risk rating grade.

	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount Shs	Loss allowance Shs	Net amount Shs
31 December 2021					
Bank balances	Various	12 months ECL	323,949	-	323,949
Fixed deposit	Various	12 months ECL	183,922,720	-	183,922,720
			<u>184,246,669</u>	<u>-</u>	<u>184,246,669</u>
31 December 2020					
Bank balances	Various	12 months ECL	393,149	-	393,149
Fixed deposit	Various	12 months ECL	52,526,877	-	52,526,877
Treasury bills	Various	12 months ECL	43,302,930	-	43,302,930
			<u>96,222,956</u>	<u>-</u>	<u>96,222,956</u>

Treasury bonds, equities and corporate bonds are valued at fair value through profit and loss. Treasury bills are valued at amortised cost.

Concentration Risk.

The Fund does not have a significant credit risk exposure to any other single counter party or group of related counterparties.

b) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The trustees agree with the investment manager on the amount to be invested in assets that can be easily liquidated.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the Fund's reputation.

The Fund's financial liabilities as at 31 December 2021 amounted to Shs 2,847,216 (2020 – Shs 1,718,252) and are payable within one year hence any discounting effect is not significant.

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

c) **Market risk**

i) Price risk

The Fund is exposed to equity securities price risk because of investments in quoted shares and in bonds held at fair value through profit or loss. The Trust Deed sets out the following guiding principles for the Fund Manager in order to manage this risk:

- Invest in a solid spread of high performance securities;
- Take capital profits when appropriate;
- Select stocks in companies with proven performance and good prospects for growth;
- Spread securities over those economic sectors that meet the criteria of performance and growth; and
- Administer the portfolio according to best practice

All quoted shares and bonds held by the Fund are traded on the Nairobi Stock Exchange (NSE).

As at 31 December 2021, an increase/(decrease) of 5% on the prices of quoted securities would result in an increase/(decrease) in profit or loss of approximately Shs 31,711,892 (2020: Shs 27,152,533).

As at 31 December 2021, an increase/ (decrease) of 5% on the prices of bonds would result in an increase/ (decrease) in loss before tax of approximately Shs 5 (2020: Shs 5,833,241)

ii) Interest rate risk

The Fund's interest-bearing assets include fixed and call deposits, which have fixed interest rates, hence are not subject to interest rate risk.

iii) Foreign exchange risk

The Fund is not exposed to significant foreign exchange risk

d) **Fair value of financial assets and liabilities**

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources: unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Fund considers relevant and observable market prices in its valuations where possible.

THE ICEA LION EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

d) Fair value of financial assets and liabilities (Continued)

There were no transfers between the levels in the period. The assets classified under level 1 and 2 at the end of the reporting period include:

Financial assets	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs
	2021 Shs	2020 Shs		
Treasury bills	-	43,302,930	Level 1	Quoted bid prices in an active market
Treasury bonds	-	108,361,210	Level 1	Quoted bid prices in an active market
Corporate bonds	100	8,617,438	Level 1	Quoted bid prices in an active market
Equity investments	634,237,830	543,050,661	Level 1	Quoted bid prices in an active market
	=====	=====		

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITES

There were no capital commitments or contingent liabilities known to the Trustee as at 31 December 2021 and 31 December 2020.

15 CURRENCY

These financial statements are presented in Kenya Shillings (Shs).

16. EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to the period end that required adjustment or disclosure in these financial statements.