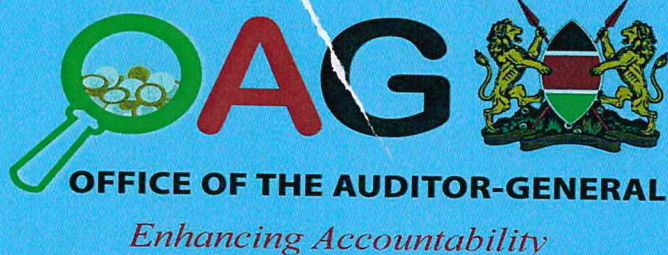


REPUBLIC OF KENYA



REPORT THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 04 AUG 2021

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THE AUDITOR-GENERAL

ON

**SMALL ENTERPRISES FINANCE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**



SMALL ENTERPRISES FINANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Small Enterprises Finance Company Limited
Annual Report and Financial statements
For the year ended 31 December 2020

<u>Contents</u>	<u>Page</u>
Company information	1
Directors' report	2
Statement of directors' responsibilities	3
Report of the independent auditor	4 – 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 – 24

DIRECTORS AND ADMINISTRATION

Directors

Victor Kidiwa
Jacob Mananda

Secretary

C A Otieno (Mrs)
Finance House
Loita Street
PO Box 34045 - 00100
Nairobi GPO

Auditor

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 - 00100
Nairobi GPO

On behalf of:

The Auditor-General
Kenya National Audit Office
Anniversary Towers
University Way
PO Box 30084 - 00100
Nairobi GPO

Registered office

Finance House
Loita Street
PO Box 34045 - 00100
Nairobi GPO

Bankers

Development Bank of Kenya Limited
Finance House
Loita Street
PO Box 30483 - 00100
Nairobi GPO

The directors submit their report together with the audited financial statements for the year ended 31 December 2020.

1. Business review

The company ceased financing any new development projects. It is currently pursuing recovery of existing project loans and advances. During the year, profit before tax declined to KShs 1.7 million compared to previous year's profit of KShs 2.4 million.

The principal risks and uncertainties facing the company as well as the risk management framework are outlined on note 4.

2. Dividends

The directors do not recommend the payment of a dividend (2020: Nil).

3. Results

The net profit for the year was KShs 1,251,000 (2019: KShs 1,659,000) has been added to retained earnings.

4. Directors

The directors who served during the year and up to the date of this report are shown on page 1.

5. Auditor

Disclosures to the auditor

The directors confirm that with respect to each director at the time of approval of this report:

- (a) There was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) Each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of the auditor

The Auditor- General is responsible for the statutory audit of the company's financial statements in accordance with Article 229 of the Constitution of Kenya. Section 23(1) of the Public Audit Act 2015, empowers the Auditor – General to nominate other auditors to carry out an audit on their behalf. KPMG Kenya who were appointed by the Auditor – General, have carried out the audit for the year ended 31 December 2020.

6. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of directors held on 15 March 2021.

By order of the board


Secretary

Date: 15 March 2021

Small Enterprises Finance Company Limited
Statement of directors' responsibilities
For the year ended 31 December 2020

The directors are responsible for the preparation and presentation of the financial statements of Small Enterprises Finance Company Limited (the "Company") set out on pages 7 to 24 which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position and the profit or loss of the company.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

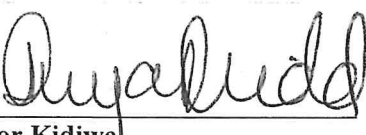
Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the company as at the end of the financial year and of the profit or loss of the for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position and the profit or loss of the company.

The directors accept 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.

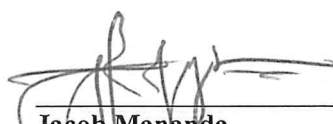
The directors have made an assessment of the company and its subsidiary ability to continue as a going concern and have no reason to believe the company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 15 March 2021.



Victor Kidiwa
Director



Jacob Mananda
Director

Date 15 March 2021

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SMALL ENTERPRISES FINANCE COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Small Enterprises Finance Company Limited set out on pages 7 to 24, which comprise the statement of financial position as at 31 December, 2020, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit have been obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Small Enterprises Finance Company Limited as at 31 December, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Kenya Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Small Enterprises Finance Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Dormant Company

As previously reported, the Company has ceased financing new development projects and is currently pursuing recovery of existing project loans and advances. Being a fully owned subsidiary of the Development Bank of Kenya Limited, the Company is served by the Board of Directors and staff of the Development Bank of Kenya Limited. The Company is dormant and also facing financial challenges with the increase in the level

of non-performing loans and reduced interest margins which are adversely affecting its profitability.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to communicate in my report.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report and financial statements, but does not include the financial statements and my audit report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall

governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Kenya Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing Company'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 Management is aware of the intention to liquidate the Company or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the Company's financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I 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 my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

06 July, 2021

Report of the Auditor-General on Small Enterprises Finance Company Limited for the year ended 31 December, 2020

Statement of comprehensive income

	Note	2020 KShs'000	2019 KShs'000
Interest income	6	2,795	2,798
Other operating income		-	251
Impairment (charge)/credit	13(c)	(358)	10
Net interest income after impairment losses on loans and advances		2,437	3,059
Administration expenses	7	(776)	(690)
Profit before taxation		1,661	2,369
Income tax expense	8	(410)	(710)
Net profit for the year		1,251	1,659
Other comprehensive income		-	-
Total comprehensive income		<u>1,251</u>	<u>1,659</u>

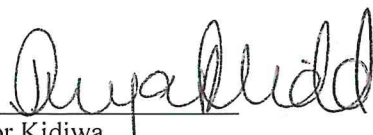
The notes set out on pages 11 to 24 form an integral part of these financial statements.

Small Enterprises Finance Company Limited
Financial statements
For the year ended 31 December 2020

Statement of financial position

	Note	2020 KShs'000	2019 KShs'000
ASSETS			
Non-current assets			
Deferred tax asset	9	181	151
Current assets			
Bank balances	10	18,979	17,391
Term deposits	10	8,003	8,003
Investment in Government securities	11	21,044	21,059
Tax recoverable	12	2,808	2,939
		50,834	49,392
TOTAL ASSETS		51,015	49,543
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	14	1,441	1,220
Equity			
Equity share capital	15	26,375	26,375
6% Preference share capital	15	9,149	9,149
Retained earnings		14,050	12,799
		49,574	48,323
TOTAL EQUITY AND LIABILITIES		51,015	49,543

The financial statements on pages 7 to 24 were approved and authorised for issue by the Board of Directors on _____ and signed on its behalf by:


Victor Kidiwa
Director


Jacob Mananda
Director

The notes set out on pages 11 to 24 form an integral part of these financial statements.

Statement of changes in equity

	Ordinary share capital KShs'000	Preference share capital KShs'000	Retained earnings KShs'000	Total KShs'000
Year ended 31 December 2019				
At start of the year	26,375	9,149	11,140	46,664
Net profit for the year	-	-	1,659	1,659
At end of year	26,375	9,149	12,799	48,323
Year ended 31 December 2020				
At start of year	26,375	9,149	12,799	48,323
Net profit for the year	-	-	1,251	1,251
At end of year	26,375	9,149	14,050	49,574

The notes set out on pages 11 to 24 form an integral part of these financial statements.

Statement of cash flows

	Note	2020 KShs'000	2019 KShs'000
Operating activities			
Profit before taxation		1,661	2,369
Changes in working capital items			
- Decrease in investments in government securities		15	15
- Increase in other liabilities	14	221	299
Tax paid	12	(309)	(310)
Net cash generated from operations		<u>1,588</u>	<u>2,373</u>
Net increase in cash and cash equivalents		1,588	2,373
Opening cash and cash equivalents balances		<u>25,394</u>	<u>23,021</u>
Cash and cash equivalents at end of year	10	<u>26,982</u>	<u>25,394</u>

The notes set out on pages 11 to 24 form an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

The company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The core business of the company was to offer loans to small and medium enterprises. Currently the company is dormant with plans for revival in place. The address of its registered office is:

Small Enterprises Finance Company Limited
Finance House
Loita Street
PO Box 34045, 00100
Nairobi GPO

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and profit and loss by the statement of comprehensive income in these financial statements.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) *New standards, amendments and interpretations effective and adopted during the year*

During the current year, the company has adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC that are relevant to its operations and effective for the annual periods beginning on 1 January 2020. The impact of the adoption of these new and revised standards and interpretations has been documented below:

New standard or amendments	Effective for annual periods beginning on or after
— Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (continued)

(i) *New standards, amendments and interpretations effective and adopted during the year - continued*

New standard or amendments	Effective for annual periods beginning on or after
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
— Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2020
— COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020

The adoption of these standards did not have a material impact on the financial statements of the Company.

(ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020*

New standards or amendments	Effective for annual period beginning or after
— Interest Rate Benchmark Reform Phase 2	1 January 2021
— Onerous Contracts Cost of Fulfilling a Contract 01 Jan 2022 (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
— IFRS 17 Insurance Contracts	1 January 2023
— Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
— Amendments to IFRS 17	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Optional and effective date deferred indefinitely

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the Company).

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The financial statements presented in Kenya-shillings (KShs), which is the Company's presentation currency. All financial information presented in these financial statements has been rounded off to the nearest thousand Kenya shillings ('000).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of comprehensive income for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in comprehensive income, and other changes in carrying amount are recognised in other comprehensive income.

(c) Income recognition

Interest income is recognized on a time proportion basis using the effective interest method.

(d) Financial assets

(i) Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

When the company revises the estimates of future cash flows, the carrying amount of the respective financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(d) Financial assets (continued)

(i) *Measurement methods - continued*

Initial recognition and measurement

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Company recognises the difference as follows:

When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(ii) *Classification and measurement*

The company applies IFRS 9 and classifies its financial assets in the following measurement categories:

- (a) Fair value through profit or loss (FVTPL);
- (b) Fair value through other comprehensive income (FVOCI); or
- (c) Amortised cost.

The company holds debts instruments and does not hold any equity instruments.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(d) Financial assets (continued)

(ii) Classification and measurement - continued

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (a) The company's business model for managing the asset; and
- (b) the cash flow characteristics of the asset as shown in the table below:

Based on these factors, the company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described under the expected credit loss measurement section. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial assets classified in this category include treasury bills and treasury bonds purchased from the secondary market; loans and advances to banks and customers with fixed or determinate payment that are not quoted in active market.

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

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial instruments reclassified in this category are those that the company holds principally for the purpose of short-term profit taking.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(d) Financial assets (continued)

(ii) Classification and subsequent measurement - continued

Debt instruments - continued

Business model: the business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

Factors considered by the company in determining the business model for a company of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

The company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(iii) Impairment

The company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and non-financial guarantee contracts. The company recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

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

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(d) Financial assets (continued)

(iv) *Investment in government securities*

Held –to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

(v) *Derecognition other than on a modification*

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

(e) Income tax

(i) *Current income tax*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) *Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Income tax (continued)

(iii) *Deferred income tax - continued*

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(f) Cash and cash equivalents

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include term deposits and bank balances.

(g) Provisions

A provision is recognized if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(h) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. Critical accounting estimates and judgements

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

Notes to the financial statements (Continued)

3. Critical accounting estimates and judgements (Continued)

Critical accounting estimates and assumptions

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

Impairment losses

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Taxes

The Company is subjected to income taxes and levies by various government and quasi-government regulatory bodies. As a rule of thumb, the Company recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

4. Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company'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 company does not hedge any risks.

Risk management is carried out by the finance department under policies approved by the Parent Company, Development Bank of Kenya Limited.

(a) Market risk

(i) Foreign exchange risk

The company did not have any foreign currency transactions and balances in the year and is therefore not exposed to foreign currency risk.

(ii) Price risk

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

Notes to the financial statements (Continued)

4. Financial risk management objectives and policies (Continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

Credit risk is managed by the Group finance department. The Company does not have any significant concentrations of credit risk.

The amount that best represents the company's maximum exposure to credit risk at 31 December 2020 and 2019 is made up as follows:

	2020 Shs'000	2019 Shs'000
Bank balances	18,979	17,391
Term deposits	8,003	8,003
Financial assets held at amortized cost	21,044	21,059
	<u>48,026</u>	<u>46,453</u>

No collateral is held for any of the above assets. The company does not grade the credit quality of receivables. No receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the loans and advances to customers as disclosed in Note 13.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group finance department maintains flexibility in funding by maintaining availability under committed credit lines.

The company's financial liabilities that will be settled on a net basis comprise the other liabilities as presented in the statement of financial position which are expected to mature within one year. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

5. Going concern

The company ceased financing any new development projects and is currently pursuing recovery of existing project loans and advances.

The directors believe that the assets will realise the recorded amounts and all liabilities will be fully discharged. Consequently, no adjustments to the carrying amount of assets and liabilities or reclassification has been effected, and the financial statements have been prepared on a going concern basis.

Notes to the financial statements (Continued)

6. Interest income

	2020 KShs'000	2019 KShs'000
Government securities	2,235	2,235
Term deposits	560	563
	<u>2,795</u>	<u>2,798</u>

7. Administrative expenses

Directors fees	100	100
Audit fees	250	250
General expenses	426	340
	<u>776</u>	<u>690</u>

Audit fees for the company has been borne by the parent company as the fees has been determined at the parent company level.

8. Income tax expense

	2020 KShs'000	2019 KShs'000
Current tax	440	740
Deferred tax charge credit (Note 9)	(30)	(30)
	<u>410</u>	<u>710</u>

The tax on the results differs from the theoretical amount using the basic tax rate as follows:

	2020 KShs'000	2019 KShs'000
Accounting profit before tax	1,661	2,369
Tax calculated at the statutory income tax rate of 25% (2019: 30%)	415	710
Increase in tax rate	(5)	-
	<u>410</u>	<u>710</u>

Notes to the financial statements (Continued)

9. Deferred tax asset

Deferred income tax is calculated using the enacted income tax rate of 30% (2019: 30%).

	2020 Shs'000	2019 Shs'000
At start of year	151	121
Credit to the income statement	<u>30</u>	<u>30</u>
	<u>181</u>	<u>151</u>

The net deferred tax asset at 31 December 2019 and 31 December 2020 is attributable to the following:

Year ended 31 December 2019	At 1 January KShs'000	Credit to profit or loss KShs'000	At 31 December KShs'000
Deferred tax assets:			
Provisions	<u>121</u>	<u>30</u>	<u>151</u>
Year ended 31 December 2020			
Deferred tax assets:			
Provisions	<u>151</u>	<u>30</u>	<u>181</u>

10. Bank balances and term deposits

	2020 Shs'000	2019 Shs'000
Bank balances	18,979	17,391
Term deposit - due within 90 days	<u>8,003</u>	<u>8,003</u>
Cash and cash equivalent	<u>26,982</u>	<u>25,394</u>

Both the bank balances and the term deposits are held with Development Bank of Kenya Limited, the parent company. The interest earned on these deposits during the year was KShs 560,000 (2019 – KShs 563,000). The effective interest rate on the deposit was 2.50% (2019 2.50 %).

11. Investment in Government Securities

	2020 Shs'000	2019 Shs'000
Financial assets at amortised cost:		
Maturing after one year	<u>21,044</u>	<u>21,059</u>

Notes to the financial statements (Continued)

	2020 Shs'000	2019 Shs'000
12. Tax recoverable		
As at 1 January	2,939	3,369
Tax expense (Note 8)	(440)	(740)
Tax paid	309	310
	<u>2,808</u>	<u>2,939</u>
13. Loans and advances to customers		
(a) Loans and advances		
Project loans and advances	55,999	55,863
Less: Impairment losses	(55,999)	(55,863)
	<u>-</u>	<u>-</u>
(b) Movement in provisions		
At start of year	55,863	55,873
Provisions made in the year	222	223
Write off	(36)	-
Recoveries	(50)	(233)
	<u>55,999</u>	<u>55,863</u>
(c) Impairment losses charged to profit or loss		
Provisions made in the year	222	223
Direct Write off	186	-
Recoveries	(50)	(233)
	<u>358</u>	<u>(10)</u>
14. Other payables		
Accruals and provisions	1119	897
Other creditors	322	323
	<u>1,441</u>	<u>1,220</u>
15. Share capital		
Authorized		
I January and 31 December		
1,500,000 ordinary shares of KShs 20 each	30,000	30,000
500,000 6% preference shares of KShs 20 each	10,000	10,000
	<u>40,000</u>	<u>40,000</u>

Notes to the financial statements (Continued)

15. Share capital (Continued)

	2020 Shs'000	2019 Shs'000
Issued and fully paid		
At 1 January and 31 December		
1,318,749 ordinary shares of KShs 20 each	26,375	26,375
457,435 6% preference shares of KShs 20 each	<u>9,149</u>	<u>9,149</u>
	<u>35,524</u>	<u>35,524</u>

The ordinary shareholders are entitled to receive dividends from time to time and are entitled to one vote per share at general meetings of the company.

The preference shares are non-cumulative and receive discretionary dividends on the par value of their shareholding. The preference shares do not carry the right to vote. All ordinary shares rank equally with regards to the company residual assets. Preference shareholders participate only to the extent of the face value of the shares.

16. Related party transactions

The company is a wholly owned subsidiary of Development Bank of Kenya Limited (DBK), which is incorporated in Kenya. DBK is a subsidiary of Industrial & Commercial Development Corporation which is 100% owned by the Government of Kenya.

The following transactions were carried out with related parties:

	2020 Shs'000	2019 Shs'000
(i) Balances and deposits		
Fixed deposit with DBK	8,003	8,003
Bank balances with DBK	<u>18,979</u>	<u>17,391</u>
	<u>26,982</u>	<u>25,394</u>
Interest earned on fixed deposit	<u>560</u>	<u>563</u>
(ii) Directors remuneration		
Fees for services as a director	<u>100</u>	<u>100</u>

17. Contingencies

Litigations

There are litigations against the company arising from normal cause of business that have been lodged by some customers. The likely outcome of these cases cannot be objectively determined as at the date of signing of these financial statements. However, the Directors do not anticipate that any liability will arise from these suits.

