

REPUBLIC OF KENYA



*Agave Lind*  
*By the Hon,*  
*Jambeck Kamau*  
*on Tuesday 24/11/2015*  
*283*

KENYA NATIONAL AUDIT OFFICE



**REPORT**  
**OF**  
**THE AUDITOR-GENERAL**  
**ON**  
**THE FINANCIAL STATEMENTS OF**  
**SMALL ENTERPRISES FINANCE**  
**COMPANY LIMITED**

**FOR THE YEAR ENDED**  
**31 DECEMBER 2013**

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**SMALL ENTERPRISES FINANCE**  
**COMPANY LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**AT**

**31 DECEMBER 2013**

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR TO 31 DECEMBER 2013**

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**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**DIRECTORS AND ADMINISTRATION**

**DIRECTORS**

Victor Kidiwa  
Jacob Mananda

**SECRETARY**

C A Otieno (Mrs)  
Finance House  
Loita Street  
P O Box 34045, 00100  
Nairobi GPO

**AUDITORS**

KPMG Kenya  
8<sup>th</sup> 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  
P O Box 34045, 00100  
Nairobi GPO  
Telephone 340401/2/3  
Telefax 0254 2 250399  
Telex 22662  
Telegrams DEVBANK.KE  
Nairobi  
Kenya

**BANKERS**

Development Bank of Kenya Limited  
Finance House  
Loita Street  
P O Box 30483, 00100  
Nairobi GPO

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2013.

**1. Principal activities**

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

**2. Results**

The results for the year are set out on page 6.

**3. Dividends**

The directors do not recommend the payment of a dividend (2012 - Nil).

**4. Directors**

The directors who served during the year are shown on page 1.

**5. Auditors**

The auditor, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486).

**6. Approval of financial statements**

The financial statements were approved at a meeting of Directors held on 5 March 2014.

**BY ORDER OF THE BOARD**

  
**Secretary**

**Date: 5 March 2014**

## **SMALL ENTERPRISES FINANCE COMPANY LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for the preparation and presentation of the financial statements of Small Enterprises Finance Company Limited set out on pages 6 to 16 which comprise the statement of financial position of the company as at 31 December 2013, and the company's statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 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 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the the company as at the end of the financial year and of the operating results for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and operating results of the company.

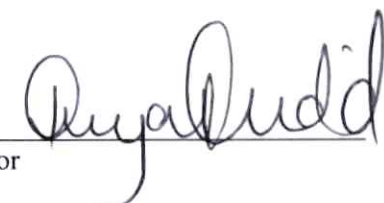
The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the group and the company's 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 by the Board of Directors on 5 March 2014 and were signed on its behalf by:

  
Director

  
Director

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON SMALL ENTERPRISES FINANCE COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2013

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Small Enterprises Finance Company Limited set out on pages 6 to 18, which comprise the statement of financial position as at 31 December 2013 the statement of comprehensive income, statement of changes in equity and a 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 auditors appointed under section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. 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 were obtained.

#### **Management's Responsibility for the Financial Statements**

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

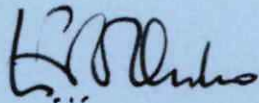
### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Kenyan Companies Act, 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, proper books of account have been kept by the Company, so far as appears from my examination of those books and,
- iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**19 August 2015**

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 KShs'000	2012 KShs'000
INTEREST INCOME	5	2,401	2,411
IMPAIRMENT (LOSSES)/REVERSALS ON LOANS AND ADVANCES	13(c)	( 133)	1,175
<b>NET INTEREST INCOME AFTER IMPAIRMENT (LOSSES)/REVERSALS ON LOANS AND ADVANCES</b>		<b>2,268</b>	<b>3,586</b>
ADMINISTRATION EXPENSES	6	( 948)	(1,025)
<b>PROFIT BEFORE TAXATION</b>	7	<b>1,320</b>	<b>2,561</b>
INCOME TAX EXPENSE	8	( 466)	( 735)
<b>NET PROFIT FOR THE YEAR</b>		<b>854</b>	<b>1,826</b>
OTHER COMPREHENSIVE INCOME		—	—
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>854</u></b>	<b><u>1,826</u></b>

The notes set out on pages 10 to 16 form an integral part of these financial statements.

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013**

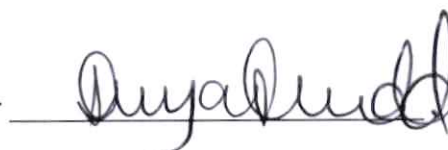
	Note	2013 KShs'000	2012 KShs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred tax asset	9	<u>151</u>	<u>120</u>
<b>Current assets</b>			
Bank balances	10	7,496	6,359
Term deposits	10	8,188	8,028
Investment in Government securities	11	21,150	21,160
Other assets	12	65	161
Tax recoverable		<u>4,698</u>	<u>4,970</u>
		<u>41,597</u>	<u>40,678</u>
<b>TOTAL ASSETS</b>		<b><u>41,748</u></b>	<b><u>40,798</u></b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
Other liabilities	14	<u>1,944</u>	<u>1,848</u>
<b>Shareholders equity (Page 8)</b>			
Ordinary share capital	15	26,375	26,375
6% Preference share capital	15	9,149	9,149
Retained earnings		<u>4,280</u>	<u>3,426</u>
		<u>39,804</u>	<u>38,950</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b><u>41,748</u></b>	<b><u>40,798</u></b>

The financial statements on pages 6 to 16 were approved by the Board of Directors on 5 March 2014 and were signed on its behalf by:

Director



Director



The notes set out on pages 10 to 16 form an integral part of these financial statements.

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

<b>2012:</b>	<b>Ordinary share capital KShs'000</b>	<b>Preference share capital KShs'000</b>	<b>Retained earnings KShs'000</b>	<b>Total KShs'000</b>
<b>Balance as at 1 January 2012</b>	26,375	9,149	1,600	37,124
<b>Total comprehensive income for the year</b>				
Net profit for the year	-	-	1,826	1,826
<b>Balance as at 31 December 2012</b>	<u>26,375</u>	<u>9,149</u>	<u>3,426</u>	<u>38,950</u>
<b>2013:</b>	<b>Ordinary share capital KShs'000</b>	<b>Preference share capital KShs'000</b>	<b>Retained earnings KShs'000</b>	<b>Total KShs'000</b>
<b>Balance as at 1 January 2013</b>	26,375	9,149	3,426	38,950
<b>Total comprehensive income for the year</b>				
Net profit for the year	-	-	854	854
<b>Balance as at 31 December 2013</b>	<u>26,375</u>	<u>9,149</u>	<u>4,280</u>	<u>39,804</u>

The notes set out on pages 10 to 16 form an integral part of these financial statements.

**SMALL ENTERPRISES FINANCE COMPANY LIMITED**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 KShs'000	2012 KShs'000
<b>Operating activities</b>			
Profit before taxation		1,320	2,561
<b>Changes in working capital items</b>			
Decrease/(increase) in investments in government securities		10	( 1)
Decrease in other assets		96	114
Increase in other liabilities		<u>96</u>	<u>164</u>
Tax paid		1,522 <u>( 225)</u>	2,838 <u>( 260)</u>
<b>Net cash flows from operations</b>		<b><u>1,297</u></b>	<b><u>2,578</u></b>
Net increase in cash and cash equivalents		1,297	2,578
Opening cash and cash equivalents balances		<u>14,387</u>	<u>11,809</u>
<b>Closing cash and cash equivalents balances</b>	10	<b><u>15,684</u></b>	<b><u>14,387</u></b>

The notes set out on pages 10 to 16 form an integral part of these financial statements.

## **SMALL ENTERPRISES FINANCE COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2013**

#### **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  
P O Box 34045, 00100  
Nairobi GPO

#### **2. BASIS OF PREPARATION**

##### **(a) Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act.

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

##### **(b) Basis of measurements**

The financial statements have been prepared on the historical cost basis except where mentioned otherwise.

##### **(c) Use of estimates and judgement**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates and assumptions are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from the estimates.

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

##### **(d) Functional and presentation currency**

All monetary figures appearing in the financial statements, unless otherwise indicated are stated in Kenya shillings (KShs) which is the company's functional currency. All financial information presented in these financial statements has been rounded off to the nearest thousand Kenya shillings unless otherwise indicated.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

**(a) Income recognition**

Interest income is recognised on an accrual basis based on interest rate of returns.

**(b) Impairment losses on loans and advances**

Loans and advances are shown at the gross amount due adjusted for any impairment losses. The provision for loan impairment losses is increased by charges to income and decreased by charge-offs net of recoveries.

Impairment loss provision is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

When an advance is deemed uncollectable, it is written off against the related provision for impairment losses. Subsequent recoveries of advances that have been written off are credited to the statement of comprehensive income.

**(c) Taxation**

Tax on the operating results for the year comprises the current charge and change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities, and the amounts used for taxation purposes, except differences relating to the initial recognition of assets and liabilities which affect neither accounting nor taxable profit. Deferred tax is calculated on the basis of tax rates currently enacted.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realized.

**(d) 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.

**(e) Dividends**

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

**(f) Provisions**

A provision is recognised 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 recognised as finance cost.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Investment 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.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the company from classifying investment securities as held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- sales or reclassifications after the Company has collected substantially all of the asset's original principal
- sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

#### (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.

#### (i) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these financial statements. These are summarised below and are not expected to have a significant impact on the financial statements of the company:

- IFRS 9 *Financial Instruments*. This will become effective on 1 January 2018.
- *Investment entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). This will become effective for years ending 31 December 2014.
- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32). This will become effective for years ending 31 December 2014
- *Recoverable amount disclosures for Non-Financial Assets* (Amendments to IAS 36) This will become effective for years ending 31 December 2014.
- *Novation of Derivatives and continuation of Hedge Accounting* (Amendments to IAS 39). This will become effective for years ending 31 December 2014.

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

(i) **New standards and interpretations not yet adopted (continued)**

- *Defined benefit plans Employee contributions* (Amendments to IAS 19). This will become effective for years ending 30 June 2015.
- *IFRIC 21 Levies*. This will become effective for years ending 31 December 2014.

4. **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

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b>5. INTEREST INCOME</b>		
Government securities	2,245	2,255
Term deposits	<u>156</u>	<u>156</u>
	<b><u>2,401</u></b>	<b><u>2,411</u></b>
<b>6. ADMINISTRATION EXPENSES</b>		
Directors fees	100	100
General expenses	<u>848</u>	<u>925</u>
	<b><u>948</u></b>	<b><u>1,025</u></b>
<b>7. PROFIT BEFORE TAXATION</b>		
Profit before taxation is arrived at after charging:		
Directors' emoluments - fees	100	100
Auditors' remuneration - Current year	<u>210</u>	<u>201</u>
<b>8. INCOME TAX EXPENSE</b>		
Corporation tax – current year	427	547
Corporation tax – prior year overprovision	70	-
Deferred tax (credit)/charge (Note 9)	<u>( 31)</u>	<u>188</u>
	<b><u>466</u></b>	<b><u>735</u></b>

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

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Accounting profit before tax	<b><u>1,320</u></b>	<b><u>2,561</u></b>
Computed tax at 30%	396	768
Prior year overprovision of tax recoverable	70	-
Less: Net disallowable non taxable income	—	<u>( 33)</u>
Tax for the year	<b><u>466</u></b>	<b><u>735</u></b>

**9. DEFERRED TAX ASSET**

The net deferred tax asset at 31 December 2013 and 31 December 2012 is attributable to the following:

<b>2013:</b>	<b>At 1 January 2013 KShs'000</b>	<b>Recognized in profit/(loss) KShs'000</b>	<b>At 31 December 2013 KShs'000</b>
<b>Arising from:</b>			
Other provisions	<u>120</u>	<u>31</u>	<u>151</u>

<b>2012:</b>	<b>At 1 January 2012 KShs'000</b>	<b>Recognized in profit/(loss) KShs'000</b>	<b>At 31 December 2012 KShs'000</b>
Tax losses	218	(218)	-
Other provisions	<u>90</u>	<u>30</u>	<u>120</u>
	<u><b>308</b></u>	<u><b>(188)</b></u>	<u><b>120</b></u>

<b>10. BANK BALANCES AND TERM DEPOSITS</b>	<b>2013 KShs'000</b>	<b>2012 KShs'000</b>
Bank balances	7,496	6,359
Term deposit - due within 90 days	<u>8,188</u>	<u>8,028</u>
<b>Cash and cash equivalent</b>	<u><b>15,684</b></u>	<u><b>14,387</b></u>

Both the bank balances and the term deposits are held with Development Bank of Kenya Limited, the holding company. The interest earned on these deposits during the year was KShs 156,000 (2012 – KShs 156,000). The effective interest rate on the deposit is 2% (2012 – 2%).

<b>11. INVESTMENT IN GOVERNMENT SECURITIES</b>	<b>2013 KShs'000</b>	<b>2012 KShs'000</b>
<b>Held to maturity</b>		
<i>Treasury bonds:</i>		
Maturing after one year	<u>21,150</u>	<u>21,160</u>
<b>12. OTHER ASSETS</b>		
Prepayments	<u>65</u>	<u>161</u>

13. LOANS AND ADVANCES TO CUSTOMERS	2013 KShs'000	2012 KShs'000
<b>(a) Loans and advances</b>		
Project loans and advances	56,417	56,284
Less: Impairment losses (Note 13(b))	<u>(56,417)</u>	<u>(56,284)</u>
<b>Maturing within one year</b>	<u>—</u>	<u>—</u>
<b>(b) Impairment losses reserve</b>		
At 1 January	56,284	58,706
Write off	-	(1,247)
Reinstated loan	( 90)	(1,606)
Provisions made in the year	<u>223</u>	<u>431</u>
<b>At 31 December</b>	<b><u>56,417</u></b>	<b><u>56,284</u></b>
<b>(c) Impairment (losses)/reversal on loans and advances</b>		
Reversal on recoveries during the year	90	1,606
Provision for impairment losses	<u>( 223)</u>	<u>( 431)</u>
	<b><u>( 133)</u></b>	<b><u>1,175</u></b>
<b>14. OTHER LIABILITIES</b>		
Accruals and provision	1,622	1,507
Other creditors	<u>322</u>	<u>341</u>
	<b><u>1,944</u></b>	<b><u>1,848</u></b>
<b>15. SHARE CAPITAL</b>		
<b>Authorised</b>		
1,500,000 ordinary shares of KShs 20 each	30,000	30,000
500,000 6% preference shares of KShs 20 each	<u>10,000</u>	<u>10,000</u>
	<b><u>40,000</u></b>	<b><u>40,000</u></b>
<b>Issued and fully paid</b>		
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>
	<b><u>35,524</u></b>	<b><u>35,524</u></b>

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 shares rank equally with regards to the company assets except that preference shareholders participate only to the extent of the face value of the shares.

## 16. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	2013	2012
(a) Purchases from related parties	KShs '000	KShs '000
Interest on deposits	<u>156</u>	<u>156</u>
(b) Bank balances and term deposits		
Deposits with Development Bank of Kenya Limited	8,188	8,028
Bank balances	<u>7,496</u>	<u>6,359</u>
	<u>15,684</u>	<u>14,387</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.

## 18. HOLDING COMPANY

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.