

REPUBLIC OF KENYA



REPORT	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 04 JUN 2025	DAY: 7/2/2
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THE AUDITOR-GENERAL

ON

SMALL ENTERPRISES FINANCE COMPANY LIMITED

**FOR THE YEAR ENDED
31 DECEMBER, 2025**

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 04 JUL 20	DAY: JL
TABLED BY:	
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SMALL ENTERPRISES FINANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025

SMALL ENTERPRISES FINANCE COMPANY LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2025

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SMALL ENTERPRISES FINANCE COMPANY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2025

SHAREHOLDERS

Development Bank of Kenya,
P.O Box 30483-00100,
Nairobi,
Kenya.

BOARD OF DIRECTORS

Name

Johnson Kiniti
Jacob Mananda
Fredrick Nyasaka

REGISTERED OFFICE

Finance House,
Loita Street,
P.O Box 34045 – 00100,
Nairobi.

BANKER

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

COMPANY SECRETARY

Yvonne Masinde
Finance House
Loita Street
P.O. Box 30483 - 00100
Nairobi, GPO
Kenya

INDEPENDENT AUDITOR

BDO East Africa Kenya
Certified Public Accountant (Kenya)
The Westwood, 9th Floor
Vale Close
Off Ring Road, Westland
P.O Box 10032 - 00100
Nairobi, Kenya.

On behalf of:

The Auditor-General
Kenya National Audit Office
Anniversary Towers
University Way
P.O Box 30084 - 00100
Nairobi.

SMALL ENTERPRISES FINANCE COMPANY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2025

The directors submit their report together with the audited financial statements for the year ended 31 December 2025.

1. Incorporation

Small Enterprises Finance Company Limited is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, and is domiciled in Kenya. The address of the Company's registered office is shown on page 2.

2. Principal Activities

The Company's traditional focus has been on lending to small and medium enterprises and is currently in transition, with approved plans for revival and strategic repositioning in line with the new business model as a provider of Digital Credit Facilities.

3. Business review

In line with its strategic transition, the Company ceased financing new development projects and prioritized recovery of existing loans. Profit before tax declined to KES 998,000 from KES 1,956,000, mainly due to one-off strategy revitalisation consultancy costs.

4. Dividends

The directors do not recommend the payment of a dividend (2024: Nil).

5. Results

The net profit for the year was KES 676,291 (2024: KES 1,368,669) has been added to retained earnings.

6. Directors

The directors who served during the year and up to the date of this report are shown on page 2.

7. Statement of Disclosure to the Independent 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 independent 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. BDO East Africa Kenya who were appointed by the Auditor-General have carried out the audit for the year ended 31 December 2025.

8. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of directors held on 11th March 2026

By order of the board



Secretary

Date: 11th March 2026.

SMALL ENTERPRISES FINANCE COMPANY LIMITED
STATEMENT OF THE DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2025

Statement of directors' responsibilities

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 9 to 23 which comprise the statement of financial position as at 31 December 2025, and the 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 the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, in conformity with IFRS accounting 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 IFRS Accounting 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 assessed the Company's ability to continue as a going concern. Although the Company remained dormant during the year and ceased financing new development projects, it is currently focused on the recovery of existing loans. Based on this assessment, the financial statements have been prepared on a going concern basis. The directors have no reason to believe that the Company will not continue as a going concern for at least 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 11th March 2026.



Fredrick Nyasaka
Director

Date: 11th March 2026



Jacob Mananda
Director

Date: 11th March 2026

REPUBLIC OF KENYA

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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, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Small Enterprises Finance Company Limited set out on pages 9 to 23, which comprise of the statement of financial position as at 31 December, 2025, and the statement of profit and loss and other comprehensive income, statement of changes in equity, 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 BDO East Africa – 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 were 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, 2025 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 the Public Finance Management Act, 2012 and the 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 the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI 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

Dormancy of the Company

I draw attention to Note 18 to the financial statements on going concern. The Company has not been financing new development projects and is currently pursuing recovery of existing project loans and advances. As a fully owned subsidiary of the Development Bank of Kenya Limited, the Company is supported by the staff of the Development Bank of Kenya Limited. The Company is functionally dormant and facing financial challenges with minimal interest margins which adversely affect its profitability.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Information

The Directors are responsible for the Other Information set out on page 2 to 4 which comprise of Directors Report and Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit of Small Enterprises Finance Company Limited financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements

or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE 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 3000 and ISSAI 4000. The standards require 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 comply 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 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 controls, 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

Conclusion

As required by the 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. The information given in the Directors' report on pages 2 to 3 is consistent with the financial statements; and
- iii. The auditable part of the Directors' remuneration report has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's, compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the 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 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 financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply 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 Company's financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require

that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

23 April, 2026

SMALL ENTERPRISES FINANCE COMPANY LIMITED
 ANNUAL FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2025

Statement of profit and loss and other comprehensive income

	Note	2025 KES '000	2024 KES '000
Interest income	5	3,007	2,795
Other operating income			
Movement in expected credit losses	12(c)	<u>-</u>	<u>65</u>
Net interest income		3,007	2,860
Administration expenses	6	<u>(2,009)</u>	<u>(904)</u>
Profit before taxation		998	1,956
Income tax expense	7	<u>(322)</u>	<u>(587)</u>
Net profit for the year		676	1,369
Other comprehensive income		<u>-</u>	<u>-</u>
Total Profit for the year		<u>676</u>	<u>1,369</u>

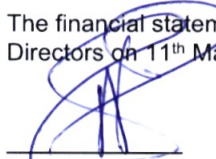
The notes set out on pages 19 to 23 form an integral part of these financial statements.

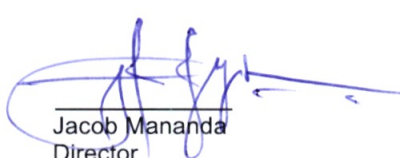
SMALL ENTERPRISES FINANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025

Statement of financial position as at 31 December 2025

	Note	2025 KES'000	2024 KES'000
ASSETS			
Non-current assets			
Deferred tax asset	8	331	301
Current assets			
Bank balances	9	20,339	26,891
Term deposits	9	14,701	8,003
Investment in government securities	10	20,967	20,983
Tax recoverable	11	2,568	2,070
		58,575	57,947
TOTAL ASSETS		58,906	58,248
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	13	2,412	2,430
Equity			
Share capital	14	26,375	26,375
Preference share capital	14	9,149	9,149
Retained earnings		20,970	20,294
		56,494	55,818
TOTAL EQUITY AND LIABILITIES		58,906	58,248

The financial statements on pages 9 to 23 were approved and authorised for issue by the Board of Directors on 11th March 2026 and signed on its behalf by:


Fredrick Nyasaka
Director


Jacob Mananda
Director

The notes set out on pages 19 to 23 form an integral part of these financial statements.

SMALL ENTERPRISES FINANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025

Statement of changes in equity

	Ordinary share capital KES'000	Preference share capital KES'000	Retained earnings KES'000	Total KES'000
Year ended 31 December 2025				
At 1 January 2025	26,375	9,149	20,294	55,818
Net profit for the year	-	-	676	676
Other comprehensive income	-	-	-	-
At 31 December 2025	26,375	9,149	20,970	56,494
Year ended 31 December 2024				
At 1 January 2024	26,375	9,149	18,825	54,449
Net profit for the year	-	-	1,369	1,369
Other comprehensive income	-	-	-	-
At 31 December 2024	26,375	9,149	20,294	55,818

The notes set out on pages 19 to 23 form an integral part of these financial statements.

SMALL ENTERPRISES FINANCE COMPANY LIMITED
 ANNUAL FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2025

Statement of cash flows

	Note	2025 KES'000	2024 KES'000
Operating activities			
Profit before taxation		998	1,956
Changes in working capital items			
- Decrease in investments in government securities	10	16	15
- Decrease in other liabilities	13	(18)	330
Tax paid	11	(850)	(799)
Net cash generated from operations		<u>146</u>	<u>1,502</u>
Net increase in cash and cash equivalents	9	146	1,502
cash and cash equivalents at start of the year		<u>34,894</u>	<u>33,392</u>
Cash and cash equivalents at end of year	9	<u>35,040</u>	<u>34,894</u>

The notes set out on pages 19 to 23 form an integral part of these financial statements.

Accounting Policies

1. Reporting entity

The company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act, 2015 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

The financial statements are prepared in compliance with IFRS accounting standard 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 which 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 material 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.

I. Basis of Preparation

(i) Statement of Compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act, 2015.

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

(ii) Functional and presentation currency

The company financial statements are prepared in millions of Kenya Shillings (KES 'million). All amounts have been rounded to the nearest thousand (KES' 000) except when otherwise

2. Summary of material accounting policies

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

Accounting Policies (Continued)

(a) Changes in accounting policies and disclosures

(i) New Standards and Interpretations

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Lack of exchangeability - amendments to IAS 21

The amendments apply to currencies which are not exchangeable. The definition of exchangeable is provided as being when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

The amendments require an entity to estimate the spot exchange rate at measurement date when a currency is not exchangeable into another currency. Additional disclosures are also required to enable users of financial statements to understand the impact of the non-exchangeability on financial performance, financial position and cash flow.

The effective date of the amendment is for years beginning on or after 01 January 2025.

The company has adopted the amendment for the first time in the 2025 financial statements.

The impact of the amendment is not material.

(ii) Standards and interpretations not yet effective

The following standards and interpretations have been published and are mandatory for the company's accounting periods beginning on or after 01 January 2026 or later periods but are not relevant to its operations:

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture.
- Amendments to IFRS 19: Subsidiaries without Public Accountability: Disclosures Effective for the years beginning on or after 01 January 2027.
- IFRS 18 Presentation and Disclosure in Financial Statements. Effective for the years beginning on or after 01 January 2027.
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. Effective for the years beginning on or after 01 January 2026.
- Amendments to IFRS 9 Financial Instruments, Effective for the years beginning on or after 01 January 2026.
- Amendments to IFRS 7 Financial Instruments: Disclosures, Effective for the years beginning on or after 01 January 2026.
- Amendments to IFRS 10 Consolidated Financial Statements. Effective for the years beginning on or after 01 January 2026.
- Amendments to IAS 7 Statement of Cash flows. Effective for the years beginning on or after 01 January 2026.
- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments. Effective for the years beginning on or after 01 January 2026.

The Company is still assessing the impact of these new standards, amendments to the published statements and interpretations issued but not effective on the presentation of its financial statements.

Accounting Policies (Continued)

(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.

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 as Financial assets Amortised cost.

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

Accounting Policies (Continued)

Debt instruments

Debt instruments are those instruments that meet the definition of 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.

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 FVPL, 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.

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 an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and 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.

(iv) 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.

Accounting Policies (Continued)

(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 tax

Deferred 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 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 effects neither accounting nor taxable profit nor loss. Deferred 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 tax asset is realised or the deferred tax liability is settled.

Deferred 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 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.

Accounting Policies (Continued)

(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.

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.

(i) 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.

(ii) 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.

(iii) Provisions

The Company applies significant judgement in estimating provisions, including the amount, timing, and likelihood of outflows. These estimates are based on expected future cash flows and, where material, are discounted using an appropriate pre-tax rate. Changes in assumptions may result in material adjustments in future periods.

Notes to the financial statements

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.

(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 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 2025 and 2024 is made up as follows:

	2025 KES'000	2024 KES'000
Bank balances	20,339	26,891
Term deposits	14,701	8,003
Financial assets held at amortized cost	<u>20,967</u>	<u>20,983</u>
	<u>56,007</u>	<u>55,877</u>

No collateral is held for any of the above assets.

None of the above assets are past due or impaired except for the loans and advances to customers as disclosed in Note 12.

(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 company 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.

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Notes to the financial statements (Continued)

5. Interest income

	2025 KES'000	2024 KES'000
Government securities	2,235	2,235
Term deposits	772	560
	<u>3,007</u>	<u>2,795</u>

6. Administrative expenses

Directors fees	100	100
Audit remuneration	400	400
General expenses	1,509	404
	<u>2,009</u>	<u>904</u>

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

7. Income tax expense

	2025 KES'000	2024 KES'000
Current tax	352	617
Deferred tax charge credit (Note 9)	(30)	(30)
	<u>322</u>	<u>587</u>

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

	2025 KES'000	2024 KES'000
Accounting profit before tax	998	1,956
Tax calculated at the statutory income tax rate of 30% (2024: 30%)	352	617
Deferred tax @ 30%	(30)	(30)
	<u>322</u>	<u>587</u>

SMALL ENTERPRISES FINANCE COMPANY LIMITED
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Notes to the financial statements (Continued)

8. Deferred tax asset

Deferred tax is calculated using the enacted income tax rate of 30% (2024: 30%).

	2025 KES'000	2024 KES'000
At 1 January	301	271
Credit to the income statement	30	30
At 31 December	<u>331</u>	<u>301</u>

The net deferred tax asset at 31 December 2025 and 31 December 2024 is attributable to the following:

Year ended 31 December 2025	At 1 January KES'000	Credit to profit or loss KES'000	At 31 December KES'000
Deferred tax assets:			
Provisions	<u>301</u>	<u>30</u>	<u>331</u>
Year ended 31 December 2024			
Deferred tax assets:			
Provisions	<u>271</u>	<u>30</u>	<u>301</u>

9. Bank balances and term deposits

	2025 KES'000	2024 KES'000
Bank balances	20,339	26,891
Term deposit - due within 90 days	14,701	8,003
Cash and cash equivalent	<u>35,040</u>	<u>34,894</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 KES 772,000 (2024 – KES 560,000). The effective interest rate on the deposit was 7.00% (2024 7.00 %).

10. Investment in Government Securities

	2025 KES'000	2024 KES'000
Financial assets at amortised cost:	<u>20,967</u>	<u>20,982</u>

11. Tax recoverable

As at 1 January	2,070	1,888
Tax expense (Note 8)	(352)	(617)
Tax paid	<u>850</u>	<u>799</u>
As at 31 December	<u>2,568</u>	<u>2,070</u>

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Notes to the financial statements (Continued)

12. Loans and advances to customers

(a) Loans and advances	2025 KES'000	2024 KES'000
Project loans and advances	53,023	53,023
Less: Impairment losses	<u>(53,023)</u>	<u>(53,023)</u>
	<u>-</u>	<u>-</u>
 (b) Movement in provisions		
At 1 January	53,023	53,088
Provisions Written Off	-	-
Recoveries	<u>-</u>	<u>(65)</u>
At 31 December	<u>53,023</u>	<u>53,023</u>
 (c) Impairment losses charged to profit or loss		
Provisions made in the year	-	-
Recoveries	<u>-</u>	<u>(65)</u>
	<u>-</u>	<u>(65)</u>

13. Other payables

Accrued Liabilities	2,090	2,108
Other liabilities	322	322
	<u>2,412</u>	<u>2,430</u>

14. Share capital

**Authorized
1 January and 31 December 2025**

1,500,000 ordinary shares of KES 20 each	30,000	30,000
500,000 6% preference shares of KES 20 each	<u>10,000</u>	<u>10,000</u>
	<u>40,000</u>	<u>40,000</u>

Issued and fully paid.

At 1 January and 31 December 2025

1,318,749 ordinary shares of KES 20 each	26,375	26,375
457,435 6% preference shares of KES 20 each	<u>9,149</u>	<u>9,149</u>
	<u>35,524</u>	<u>35,524</u>

Notes to the financial statements (Continued)

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 regard to the company residual assets. Preference shareholders participate only to the extent of the face value of the shares.

15. 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:

	2025 KES'000	2024 KES'000
(i) Balances and deposits		
Fixed deposit with DBK	14,701	8,003
Bank balances with DBK	<u>20,339</u>	<u>26,891</u>
	<u>35,040</u>	<u>34,894</u>
Interest earned on fixed deposit	<u>772</u>	<u>560</u>
(ii) Directors' remuneration		
Fees for services as a director	<u>100</u>	<u>100</u>

16. 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.

17. Subsequent Events

The Company is dormant; there were no subsequent events post the reporting date.

18. Going concern

The Company has ceased financing new development projects and is focused on recovery of existing loans and advances, while undergoing a strategic shift and organisational revamp towards digital lending operations.

The directors have assessed the Company's position and have a reasonable expectation that assets will be realised at their carrying amounts and liabilities settled in the normal course of business. Accordingly, the financial statements have been prepared on a going concern basis, and no adjustments to the carrying amounts or classification of assets and liabilities have been made.