REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF SMALL ENTERPRISES FINANCE COMPANY LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2017

SMALL ENTERPRISES FINANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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DIRECTORS AND ADMINISTRATION

Directors
Victor Kidiwa
Jacob Mananda

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

Auditor
PricewaterhouseCoopers (PwC)
PwC Towers
Waiyaki Way/ Chiromo Road
PO Box 43963 - 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 2017.

BUSINESS REVIEW

The company has ceased financing any new development projects. It is currently pursuing recovery of existing project loans and advances. Interest income for the year was generated from Treasury bonds and cash deposit with the bank.

During the year profit dropped from Shs 2.0 million to Shs 1.3 million mainly due to a decrease in Interest income by 19.1% (Shs 0.7 million) and an increase in impairment by Shs 0.5 million.

DIVIDEND

The profit for the year of Shs 1,256,000 (2016: Shs 1,991,000) has been added to retained earnings. The directors do not recommend the payment of a dividend (2016 - Nil).

DIRECTORS

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

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 books of account in accordance with Section 14 and 39(i) of the Public Audit Act. This Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf.

PricewaterhouseCoopers, who were appointed by the Auditor-General, carried out the audit of the Bank's financial statements for the year ended 31 December 2017.

By order of the board

6 MARCH 2018

Secretary

2018

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then apply them consistently; and

iii. Making judgments and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 6 MARCH 2018 and signed on its behalf by:

Victor Kidiwa

Jacob Mananda

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON SMALL ENTERPRISES FINANCE COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Small Enterprises Finance Company Limited set out on pages 7 to 22, which comprise the statement of financial position as at 31 December 2017, 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 PricewaterhouseCoopers, 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, 2017, 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 Kenya Companies Act.

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

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Small Enterprises Finance Company Limited in accordance with ISSAI 30 on 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

Funding of New Projects

The Company ceased financing new development projects for some time now and currently pursues recovery of existing project loans and advances. Being a fully owned

subsidiary of Development Bank of Kenya Limited with no distinct directors and staff, the company is served by the directors and staff of Development bank of Kenya Limited.

Other Matter

Management has not disclosed in the financial statements the fact that the comparative figures (for the financial year 2016) were restated since the following 2016 closing balances changed as follows:

	2016 Closing Balance (Kshs.) 000	2017 Opening Balance (Kshs.) 000
Impairment on loans & advances	47	247
Administrative expense	656	856
Income tax expense	645	854
Term deposit	8,000	8,003
Investment in Government Sec.	21,042	21,104
Current income tax (recoverable)	4,145	3,676
Other assets	65	-
Retained earning	8,725	8,516
Equity	44,249	44,040

Responsibilities of Management and those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting and for such 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.

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 the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Company's's 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 Company'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 of the Company's business activities 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.

Report on Other Legal and Regulatory Requirements

As required by the Kenyan 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.

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

Nairobi

27 June 2018

Statement of profit or loss and other comprehensive income

		Year ended 31 December	
		2017	2016
	Note	Shs'000	Shs'000
Interest income	6	2,793	3,454
Impairment (charge)/reversal	12(b)	(223)	247
Net interest income after impairment (charge)/reversal		2,570	3,701
Administration expenses	7	(776)	(856)
Profit before income tax		1,794	2,845
Income tax expense	8	(538)	(854)
Profit for the year		1,256	1,991
Other comprehensive income		-	-
Total comprehensive income		1,256	1,991

Statement of financial position

	Note	As at 31 December 2017 Shs'000	2016 Shs'000
ASSETS			
Non-current assets			
Deferred income tax	9	91	61
Current assets			
Bank balances	10	13,499	12,058
Term deposits	10	8,003	8,003
Investment in Government securities	11	21,089	21,104
Current income tax		3,676	3,936
		46,267	45,101
TOTAL ASSETS		46,358	45,162
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	14	26,375	26,375
6% Preference share capital	14	9,149	9,149
Retained earnings		9,772	8,516
Total equity		45,296	44,040
Current liabilities			
Other payables	13	1,062	1,122
TOTAL EQUITY AND LIABILITIES		46,358	45,162

The financial statements on pages 7 to 22 were approved for issue by the Board of Directors on 6 MARCH 2018 and signed on its behalf by:

Victor Kidiwa

Jacob Mananda

Statement of changes in equity

	Ordinary share capital	Preference share capital	Retained earnings	Total
Year ended 31 December 2016	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of the year	26,375	9,149	6,525	42,049
Profit for the year	-	-	1,991	1,991
At end of year	26,375	9,149	8,516	44,040
Year ended 31 December 2017				
At start of year	26,375	9,149	8,516	44,040
Profit for the year	-	-	1,256	1,256
At end of year	26,375	9,149	9,772	45,296

Statement of cash flows

	Note	Year ended 31 December 2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Profit before taxation		1,794	2,845
Changes in working capital			
- Other receivables		-	148
- Investments in government securities		15	6,045
- Other liabilities		(60)	(1,031)
Tax paid		(308)	(262)
Net cash generated from operations		1,441	7,745
Net increase/(decrease) in cash and cash equivalents		1,441	7,745
Opening cash and cash equivalents balances		20,061	12,316
Cash and cash equivalents at end of year	10	21,502	20,061

Notes

1 General information

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

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

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS 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.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the company for the first time for the financial period beginning 1 January 2017:

Amendment to IAS 12 – Income taxes, the amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.

Amendment to IAS 7 – Cash flow statements, the amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

The revised standards did not have any effect on the Company's reported earnings or financial statement position and had no impact on the accounting policies.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

ii) New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. Management do not expect the standard to have a significant impact on the financial statements.

IFRS 15, 'Revenue from contracts with customers', which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15,and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2018. The Company is currently assessing the impact of the amendment on its financial statements. Management do not expect the standard to ha a significant impact on the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company

Notes (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 the entity operates ('the Functional Currency'). The financial statements presented in Kenya shillings, 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.

(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 profit or loss 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 profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

(c) Interest income

Interest income is recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

(d) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Company upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Loans and advances (continued)

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.

(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 or 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.

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.

Notes (continued)

(g) Dividends

Dividends are charged to equity in the period in which they are declared.

(h) 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.

(i) 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; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

(j) 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.

Notes (continued)

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.

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 Company finance department under policies approved by the Parent Company, Development Bank of Kenya Limited.

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.

(iii) Price risk

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

Notes (continued)

4 Financial risk management objectives and policies (continued)

(iii) Interest rate risk

The company did not have any exposure to interest rate risk as the investments in government securities and fixed deposits are at fixed interest rates.

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 Company 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 2017 is made up as follows:

	2017 **Shs'000**	**2016** **Shs'000**
Bank balances	13,499	12,058
Term deposits	8,003	8,003
Financial assets held to maturity	21,089	21,104
	42,591	41,165

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 12.

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 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.

Notes (continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Up to 3 month Shs'000'	3-12 months Shs'000'	Over 1 years Shs'000'	Total Shs'000'
As at 31 December 2017				
Liabilities				
Other payables	-	1,062	-	1,062
As at 31 December 2016				
Liabilities				
Other payables	-	1,122	-	1,122

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.

6 Interest income

	2017 Shs'000	2016 Shs'000
Government securities	2,235	3,253
Term deposits	558	201
	2,793	3,454

7 Administrative expenses

Directors fees	100	100
Audit fees	210	250
General expenses	466	506
	776	856

Audit fees and staff costs for the company have been borne by the parent company. Audit fees are determined at the parent company level.

Notes (continued)

8 Income tax expense

	2017 Shs'000	2016 Shs'000
Current income tax	568	704
Deferred income tax (Note 9)	(30)	150
	538	854

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2017 Shs'000	2016 Shs'000
Profit before income tax	1,794	2,845
Tax calculated at the statutory income tax rate of 30% (2016: 30%)	538	854
	538	854

9 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%).

	2017 Shs'000	2016 Shs'000
At start of year	61	211
Credit/(charge) to the income statement	30	(150)
At end of year	91	61

The net deferred tax asset at 31 December 2016 and 31 December 2017 is attributable to the following:

Year ended 31 December 2016	At 1 January Shs'000	Credit to profit or loss Shs'000	At 31 December Shs'000
Deferred tax assets:			
Provisions	211	(150)	61
Year ended 31 December 2017			
Deferred tax assets:			
Provisions	61	30	91

Notes (continued)

10 Bank balances and term deposits

	2017 Shs'000	2016 Shs'000
Bank balances	13,499	12,058
Term deposit - due within 90 days	8,003	8,003
Cash and cash equivalent	21,502	20,061

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 Shs 558,000 (2016 – Shs 201,000). The effective interest rate on the deposit is 7% (2016: 3%).

11 Investment in Government securities

	2017 Shs'000	2016 Shs'000
Treasury bonds held to maturity:	21,089	21,104

12 Loans and advances to customers

(a) Loans and advances

Project loans and advances	55,724	55,701
Less: Impairment losses	(55,724)	(55,701)
	-	-

(b) Impairment losses

At start of year	55,501	55,948
Write Offs	-	(75)
Recoveries	-	(394)
Provisions made in the year	223	222
	55,724	55,701

Notes (continued)

13 Other payables

	2017 Shs'000	2016 Shs'000
Accruals and provisions	740	800
Other creditors	322	322
	1,062	1,122

14 Share capital

Authorized		
1,500,000 ordinary shares of Shs 20 each	30,000	30,000
500,000 6% preference shares of Shs 20 each	10,000	10,000
	40,000	40,000
Issued and fully paid		
At 1 January and 31 December		
1,318,749 ordinary shares of Shs 20 each	26,375	26,375
457,435 6% preference shares of Shs 20 each	9,149	9,149
	35,524	35,524

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.

Notes (continued)

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:

	2017 Shs'000	2016 Shs'000
(i) Balances and deposits		
Fixed deposit with Development Bank of Kenya Limited	12,499	12,058
Bank balances	8,003	8,000
	20,502	20,058
Interest earned on fixed deposit	558	201
(ii) Directors remuneration		
Fees for services as a director	100	100

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.