

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
SMALL ENTERPRISES FINANCE
COMPANY LIMITED**

**FOR THE YEAR ENDED
31 DECEMBER 2014**





SMALL ENTERPRISES FINANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

Small Enterprises Financial Company Limited
Financial Statements
For the year ended 31 December 2014

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DIRECTORS AND ADMINISTRATION

Directors

Victor Kidiwa
Jacob Mananda

Secretary

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

Auditor

PricewaterhouseCoopers (PwC)
PwC Towers
Waiyaki Way/Chiromo Road
P O Box 439363, 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

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2014.

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 (2013 - Nil).

4. Directors

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

5. 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.

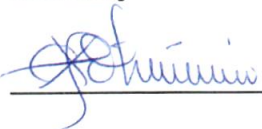
PricewaterhouseCoopers, who were appointed by the Auditor-General, carried out the audit of the Bank's financial statements for the year ended 31 December 2014.

6. Approval of financial statements

The financial statements were approved at a meeting of Directors held on 22 June 2015.

By order of the board

Secretary


_____ 2015

The Kenyan Companies Act requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of its profit or loss for that period. It also requires the directors to ensure that the Company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

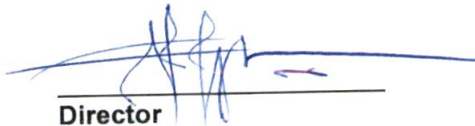
They directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- 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 and applying appropriate accounting policies;
- iii) Making accounting estimates and judgements that are reasonable in the circumstances.

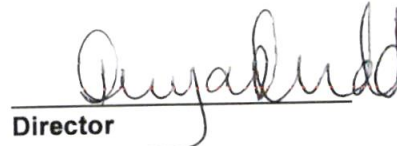
The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 31 December 2014 and of its performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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.

Approved by the Board of Directors on 22 June 2015 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

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Fax: +254-20-311482
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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON SMALL ENTERPRISES FINANCE COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 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 Pricewaterhouse Coopers CPA 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.

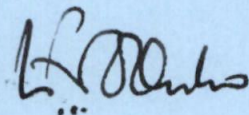
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, 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

25 August 2015

Statement of comprehensive income

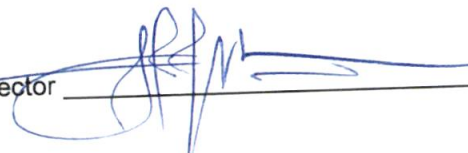
	Note	Year ended 31 December	
		2014 KShs'000	2013 KShs'000
Interest income	4	2,386	2,401
Impairment losses on loans and advances	11	<u>(223)</u>	<u>(133)</u>
Net interest income after impairment losses on loans and advances		2,163	2,268
Administration expenses	5	<u>(1,243)</u>	<u>(1,016)</u>
Profit before taxation		920	1,252
Income tax expense	6	<u>(276)</u>	<u>(398)</u>
Net profit for the year		644	854
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>644</u>	<u>854</u>

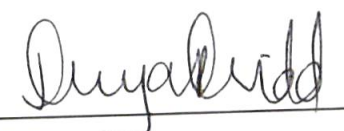
The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of financial position

	Note	As at 31 December	
		2014	2013
		KShs'000	KShs'000
ASSETS			
Non-current assets			
Deferred tax asset	7	181	151
Current assets			
Bank balances	8	7,994	7,496
Term deposits	8	8,290	8,188
Investment in Government securities	9	21,135	21,150
Other assets	10	215	65
Tax recoverable		4,665	4,698
		42,299	41,597
TOTAL ASSETS		42,480	41,748
EQUITY AND LIABILITIES			
Current liabilities			
Other liabilities	12	2,032	1,944
Shareholders equity			
Ordinary share capital	13	26,375	26,375
6% Preference share capital	13	9,149	9,149
Retained earnings		4,924	4,280
		40,448	39,804
TOTAL EQUITY AND LIABILITIES		42,480	41,748

The financial statements on pages 6 to 18 were approved by the Board of Directors on 22 June 2015 and were signed on its behalf by:

Director 

Director 

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of changes in equity

	Ordinary share capital KShs'000	Preference share capital KShs'000	Retained earnings KShs'000	Total KShs'000
Year ended 31 December 2013				
At start of the year	26,375	9,149	3,426	38,950
Total comprehensive income for the year				
Net profit for the year	-	-	854	854
At end of year	<u>26,375</u>	<u>9,149</u>	<u>4,280</u>	<u>39,804</u>
Year ended 31 December 2014				
At start of year	26,375	9,149	4,280	39,804
Total comprehensive income for the year				
Net profit for the year	-	-	644	644
At end of year	<u>26,375</u>	<u>9,149</u>	<u>4,924</u>	<u>40,448</u>

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 December	
		2014 KShs'000	2013 KShs'000
Operating activities			
Profit before taxation		920	1,252
Prior year overprovision of tax recoverable expensed during the year		-	68
Changes in working capital items			
- Decrease in investments in government securities		15	10
- (Increase)/ decrease in other assets		(150)	96
- Increase in other liabilities		88	96
Tax paid		(273)	(225)
Net cash flows from operations		<u>600</u>	<u>1,297</u>
Net increase in cash and cash equivalents		600	1,297
Opening cash and cash equivalents balances		<u>15,684</u>	<u>14,387</u>
Closing cash and cash equivalents balances	8	<u><u>16,284</u></u>	<u><u>15,684</u></u>

The notes set out on pages 10 to 18 form an integral part of these financial statements.

Notes

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. 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 accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act. The measurement basis applied is the historical cost convention as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The financial statements are presented in Kenyan Shillings (Kshs), rounded to the nearest thousand.

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.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards have been adopted by the company for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the company:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the company financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) 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 2014, 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*', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2014. It replaces the guidance in IAS 30 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's 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 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 the 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. The Company is yet to assess the full impact of IFRS 9.

IFRS 15, '*Revenue from contracts with customers*', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. 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 2017, and replaces IAS 11 and IAS 18.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the Company financial statements.

(c) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The financial statements presented in Kenya shillings, 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Income recognition

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

(e) 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 recognised 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.

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.

(f) 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.

(g) 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)

2 Summary of significant accounting policies (continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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. Going concern

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

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

Notes (continued)

4. Interest income

	2014 KShs'000	2013 KShs'000
Government securities	2,235	2,245
Term deposits	151	156
	<u>2,386</u>	<u>2,401</u>

5. Administrative expenses

	2014 KShs'000	2013 KShs'000
Directors fees	100	100
General expenses	1,143	916
	<u>1,243</u>	<u>1,016</u>

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

6. Income tax expense

	2014 KShs'000	2013 KShs'000
Corporation tax – Current year	306	429
Deferred tax credit (Note 7)	(30)	(31)
	<u>276</u>	<u>398</u>

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

	2014 KShs'000	2013 KShs'000
Accounting profit before tax	<u>920</u>	<u>1,252</u>
Tax calculated at the statutory income tax rate of 30% (2013: 30%)	276	376
Tax effect of:		
Expenses not allowable for tax purposes	<u>-</u>	<u>22</u>
Tax for the year	<u>276</u>	<u>398</u>

Notes (continued)

7. Deferred tax asset

Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%).

	2014 Shs'000	2013 Shs'000
At start of year	151	120
Credit to the income statement	30	31
At end of year	181	151

The net deferred tax asset at 31 December 2014 and 31 December 2013 is attributable to the following:

	At 1 January 2013 KShs'000	Credit to profit or loss KShs'000	At 31 December 2013 KShs'000
Deferred tax assets	120	31	151
Provisions	120	31	151

	At 1 January 2014 KShs'000	Credit to profit or loss KShs'000	At 31 December 2014 KShs'000
Deferred tax assets	151	30	181
Provisions	151	30	181

8. Bank balances and term deposits

	2014 Shs'000	2013 Shs'000
Bank balances	7,994	7,496
Term deposit - due within 90 days	8,290	8,188
Cash and cash equivalent	16,284	15,684

Both the bank balances and the term deposits are held with Development Bank of Kenya Limited, the parent company. The interest earned on these deposits during the year was KShs 151,000 (2013 – KShs 156,000). The effective interest rate on the deposit is 1.75% (2013 – 2%).

Notes (continued)

9. Investment in government securities

	2014 Shs'000	2013 Shs'000
Treasury bonds held to maturity: Maturing after one year	<u>21,135</u>	<u>21,150</u>

10. Other assets

Prepayments	<u>215</u>	<u>65</u>
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11. Loans and advances to customers

Loans and advances

Project loans and advances	56,640	56,417
Less: Impairment losses	<u>(56,640)</u>	<u>(56,417)</u>
	<u>-</u>	<u>-</u>

Impairment losses

At start of year	56,417	56,284
Reinstated loan	-	(90)
Provisions made in the year	<u>223</u>	<u>223</u>
	<u>56,640</u>	<u>56,417</u>

Losses/(reversals)

Reversal on recoveries during the year	-	(90)
Provisions made in the year	<u>223</u>	<u>223</u>
	<u>223</u>	<u>133</u>

12. Other liabilities

Accruals and provisions	1,710	1,622
Other creditors	<u>322</u>	<u>322</u>
	<u>2,032</u>	<u>1,944</u>

Notes (continued)

13. Share capital

	2014 Shs'000	2013 Shs'000
Authorised		
1,500,000 ordinary shares of KShs 20 each	30,000	30,000
500,000 6% preference shares of KShs 20	<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		
1,318,749 ordinary shares of KShs 20 each	26,375	26,375
457,435 6% preference shares of KShs 20	<u>9,149</u>	<u>9,149</u>
	<u>35,524</u>	<u>35,524</u>
Maturing after one year		

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.

14. 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:

	2014 Shs'000	2013 Shs'000
Balances and deposits		
Fixed deposit with Development Bank of Kenya	8,290	8,188
Bank balances	<u>7,994</u>	<u>7,498</u>
	<u>16,284</u>	<u>15,686</u>
Interest earned on fixed deposit	<u>151</u>	<u>156</u>

Notes (Continued)

15. 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.



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11