

**SMALL AND MICRO ENTERPRISE
PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2009**

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS	PAGES
Corporate information	2
Report of the directors	3
Statement of directors' responsibilities	4
Independent auditors' report	5 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 30

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

CORPORATE INFORMATION

DIRECTORS	Mr J Muriu	-Chairman
	Mrs V Awori	-Vice Chairman
	Mr A Ngugi	-Honorary Treasurer
	Rev Canon P Karanja	
	Mr S Awuor	
	Mr G Kivuti	
	Mr T Matiany	

CHIEF EXECUTIVE OFFICER	Mrs P Mbungu
-------------------------	--------------

SECRETARY	L Ndolo Certified Public Secretaries (Kenya) P.O Box 45099 00100 GPO Nairobi
-----------	--

REGISTERED OFFICE	Kirichwa Road LR No. 2/187 P.O Box 64063 00620 Muthaiga Nairobi
-------------------	---

AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) "Kirungii", Ring Road, Westlands P.O Box 40092 00100 GPO Nairobi
----------	--

PRINCIPAL BANKERS	The Co-operative Bank of Kenya Limited P.O Box 48231 00200 City Square Nairobi
-------------------	---

	Kenya Commercial Bank Limited P.O Box 30081 00100 GPO Nairobi
--	--

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The company focuses on poverty alleviation and employment creation through the support of micro and small enterprises, and is a national network with operations in all the provinces in Kenya.

The company is in the process of transforming to a regulated deposit taking Micro-finance institution.

RESULTS

	Sh
Profit before tax	22,448,967
Tax charge	(5,134,114)
	—————
Profit for the year	17,314,853
	=====

DIVIDEND

The company does not pay dividends.

DIRECTORS

The present directors are shown on page 2.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

Secretary

2010

Nairobi

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.

.....
Director

.....
Director

2010

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

Report on the Financial Statements

We have audited the accompanying financial statements of Small and Micro Enterprise Programme, set out on pages 7 to 30 which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Kenyan Companies Act.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)(Continued)**

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our 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.

Certified Public Accountants (Kenya)

2010

Nairobi

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
INTEREST INCOME	3	250,875,926	178,549,665
INTEREST EXPENSE	4	(49,671,142)	(26,860,073)
NET INTEREST INCOME		201,204,784	151,689,592
FEE INCOME	5	40,353,137	39,797,173
OTHER OPERATING INCOME	6	16,291,812	16,832,582
OPERATING INCOME		257,849,733	208,319,347
OPERATING EXPENSES	7	(235,400,766)	(193,811,706)
PROFIT BEFORE TAX		22,448,967	14,507,641
TAXATION CHARGE	9(a)	(5,134,114)	(2,275,024)
PROFIT FOR THE YEAR		17,314,853	12,232,617
OTHER COMPREHENSIVE INCOME:			
Surplus on revaluation of property	14	54,686,977	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		72,001,830	12,232,617

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
ASSETS			
Bank and cash balances		320,195,262	88,316,798
Treasury bills	10	-	69,185,429
Loans to customers	11	894,201,861	827,321,175
Other receivables	12	7,018,006	4,200,216
Stationery inventory		741,877	519,894
Intangible assets	13	10,689,388	13,635,982
Property and equipment	14	85,707,145	24,686,428
Deferred tax	15	7,763,795	6,562,220
		-----	-----
TOTAL ASSETS		1,326,317,334	
	1,034,428,142	=====	=====
RESERVES AND LIABILITIES			
LIABILITIES			
Group loan collateral savings	16	526,719,288	421,822,276
Accruals and other liabilities	17	22,274,723	16,659,033
Borrowings	18	473,510,595	364,249,995
Revolving loan fund	19	13,600,000	13,600,000
Taxation payable	9(c)	1,811,719	1,697,659
		-----	-----
TOTAL LIABILITIES		1,037,916,325	818,028,963
RESERVES			
Revenue reserves		233,714,032	216,399,179
Revaluation surplus		54,686,977	-
		-----	-----
		288,401,009	216,399,179
		-----	-----
TOTAL RESERVES AND LIABILITIES		1,326,317,334	
	1,034,428,142	=====	=====

The financial statements on pages 7 to 30 were approved by the board of directors on 2010 and were signed on its behalf by:

)
) Directors
)

)

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF CHANGES EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Revaluation surplus Sh	Revenue reserves Sh	Total Sh
At 1 January 2008	-	204,166,562	204,166,562
Profit for the year	-	12,232,617	12,232,617
	-----	-----	-----
At 31 December 2008	-	216,399,179	216,399,179
	=====	=====	=====
At 1 January 2009	-	216,399,179	216,399,179
Total comprehensive income for the year	54,686,977	17,314,853	72,001,830
	-----	-----	-----
At 31 December 2009	54,686,977	233,714,032	288,401,009
	=====	=====	=====

The revaluation surplus represents solely the surplus on the revaluation of buildings and freehold land. Revenue reserves represent cumulative profits.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Sh	2008 Sh
Cash used in operations	20(a)	(128,785,912)	(268,391,042)
Tax paid	9(c)	(6,221,629)	(1,957,824)
Interest received		250,875,926	178,549,665
Interest paid	4	(49,671,142)	(26,860,073)
		<hr/>	<hr/>
Net cash used in operations		66,197,243	(118,659,274)
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(11,993,514)	(5,104,748)
Purchase of intangible assets	13	(1,771,294)	(3,814,700)
Proceeds from disposal of equipment		1,000,000	-
		<hr/>	<hr/>
Net cash used in investing activities		(12,764,808)	(8,919,448)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Loans received	18	226,456,772	225,000,000
Loans repayments	18	(82,640,026)	(76,872,555)
		<hr/>	<hr/>
Net cash generated from financing activities		143,816,746	148,127,445
		<hr/>	<hr/>
Increase in cash and cash equivalents		197,249,181	20,548,723
Cash and cash equivalents at 1 January		121,308,440	100,759,717
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	20(b)	318,557,621	121,308,440
		=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Adoption of new and revised International Financial Reporting Standards (IFRSs)

Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standards are effective for the current period:

- IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1, Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income; and amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23, Borrowing Costs, Comprehensive revision to prohibit immediate expensing (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments resulting from May 2009 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)

Impact of the new and revised standards and interpretations in issue

IAS 1 (Revised), presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. The company had no items of ‘non-owner changes in equity’ and consequently the owner changes in equity were presented in the statement of changes in equity.

According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and at end of the period. Since the change only impacts presentation aspects, there is no impact on retained earnings.

The company also elected to use the titles per revised IAS 1 of ‘statement of financial position’ and ‘statement of cash flows’ to describe the ‘balance sheet’ and ‘cash flow statement’ respectively.

The company has not presented three statements of financial position in these financial statements because it has not applied an accounting policy retrospectively, made a retrospective restatement of items in its financial statements, or reclassified items in its financial statements that affected the statement of financial position at the beginning of the earliest comparative period.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

Impact of the new and revised standards and interpretations in issue (Continued)

Adoption of these interpretations and standards has not led to any changes in the company's accounting policies.

New and revised standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IAS 39, Financial Instruments: Recognition and Measurement: Amendments relating treatment of loan prepayment penalties as closely related derivatives (effective for accounting periods beginning on or after 1 January 2010)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009); amendments for embedded derivatives when reclassifying financial instruments (effective for accounting periods ending on or after 30 June 2009)
- IAS 1, Presentation of Financial Statements: amendment for the classification of convertible instruments (effective for accounting periods beginning on or after 1 January 2010)
- IAS 7, Statement of Cash Flows, Amendment relating to current and non-current classification of convertible instruments (effective for accounting periods beginning on or after 1 January 2010)
- IAS 36: Impairment of Assets: Amendment relating the unit of accounting for goodwill impairment test (effective for accounting periods beginning on or after 1 January 2010)
- IAS 38, intangible Assets: Amendment for measuring the fair value of an intangible asset acquired in a business combination (effective for accounting periods beginning on or after 1 January 2010)

The directors anticipate that the adoption of the above standards and interpretations will have no material impact on the financial statements of the group in the period of initial application.

Basis of accounting

The company prepares its financial statements on the historical cost basis of accounting as modified to include the revaluation of certain assets. The principal accounting policies adopted remain unchanged from the previous year except as stated below:

Property and equipment

During the year the directors resolved to change the accounting policy on property and equipment. Land and buildings are with effect from 31 December 2009 carried at revaluation and not historical cost at in prior years.

Income recognition

Interest income is recognised for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Fees and commissions income are recognised at the time of effecting the transactions.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Grants and donations

Grants and donations are recognised in the period in which they are received.

Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya Shillings at the rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rates ruling at that date. The resulting differences are dealt with in profit or loss in the year in which they arise.

Inventory

Inventory represents stocks of stationery and is stated at cost.

Property and equipment and depreciation

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation and any accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land is not depreciated.

Depreciation for all the other property and equipment is calculated on a straight line basis at annual rates estimated to write off the cost of the assets over their expected useful lives. The annual rates used are as follows:

Permanent buildings	2.5%
Prefabricated buildings	20%
Motor vehicles	25%
Computers	33.33%
Office furniture, fittings and equipment	12.5%

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are dealt with in the statement of comprehensive income in the year they arise.

Intangible assets

Expenditure incurred on acquisition and development of computer software is initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets

The company classifies its financial assets into the following categories. Management determines the appropriate classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company advances cash to borrowers with no intention of trading the receivable. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Specific provisions are made against loans and advances when in the opinion of management the company will not be able to collect all amounts due according to the original contractual terms of the loans and advances. In addition, general provisions are maintained based on management's evaluation of the portfolio and advances and other exposures in respect of losses, which although not specifically identified are known from experience to be present in any such portfolio.

When a loan is deemed uncollectable, it is written off against the related provision. Subsequent recoveries of amounts written off are credited to the statement of comprehensive income.

objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
 - default or delinquency in interest or principal payments; or
 - it becoming probable that the borrower will enter bankruptcy or financial re-organisation.
- Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts(including all fees, transaction costs and premiums or discounts)through the expected life of the financial asset,or,where appropriate, a shorter period.

Treasury bills

Treasury bills are debt securities issued by the Government of Kenya. These are classified as held to maturity and are stated at face value less unearned discount.

Financial liabilities

Financial liabilities are classified in the category of other financial liabilities.

Group loan collateral savings

Group loan collateral savings represent amounts deposited by customers as security for loans advanced and are interest bearing.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made by way of penalty is recognised as an expense in the period in which termination takes place.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Retirement benefits

The company operates a provident fund for its employees. The scheme is administered independently by Insurance Company of East Africa and is funded by contributions from both the company and employees.

The company also makes contributions to the National Social Security Fund (NSSF), which is a statutory defined contribution pension scheme. The scheme is registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to Sh 200 per employee per month. The company's contributions are charged to the statement of comprehensive income as they fall due.

Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current year.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the entities accounting policies are dealt with below:

Critical judgements in applying accounting policies

Property, plant and equipment

Critical estimates are made by the Company management, in determining depreciation rates for property and equipment.

Impairment losses

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

As described above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

	2009 Sh	2008 Sh
3 INTEREST INCOME		
Interest on loans	232,998,518	167,807,654
Interest on treasury bills and short term deposits	17,877,408	10,742,011
	-----	-----
	250,875,926	178,549,665
	=====	=====
4 INTEREST EXPENSE		
Interest on loans	42,277,017	21,727,467
Interest on group collateral savings	7,291,628	4,622,510
Interest on bank overdraft	102,497	510,096
	-----	-----
	49,671,142	26,860,073
	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2009 Sh	2008 Sh
5 FEE INCOME		
Loan disbursement fees	20,588,889	22,357,259
Loan application fees	15,697,668	13,594,427
Membership fees	4,066,580	3,845,487
	<hr/>	<hr/>
	40,353,137	39,797,173
	<hr/> <hr/>	<hr/> <hr/>
6 OTHER OPERATING INCOME		
Grant income	5,354,550	8,791,943
Profit on sale of motor vehicle	1,000,000	-
Sundry income	4,499,441	3,751,859
Unrealised exchange gains	455,088	274,870
Training fees	4,982,733	4,013,910
	<hr/>	<hr/>
	16,291,812	16,832,582
	<hr/> <hr/>	<hr/> <hr/>
7 OPERATING EXPENSES		
Staff costs (note 8)	107,469,199	87,375,091
Bad and doubtful debts	31,586,872	35,774,292
Transformation costs	21,278,132	16,921,290
Depreciation and amortisation	10,377,662	8,393,742
Bank charges	8,123,973	8,495,863
Office rent	16,201,428	10,092,284
Travel and transport costs	10,286,773	6,631,660
Programme costs	4,851,024	3,896,754
Communication expenses	5,520,339	2,992,365
Printing and stationery	5,497,844	3,940,305
Office expenses	2,644,470	2,169,288
Auditors' remuneration :Current year	1,330,520	1,244,100
:Prior year (over)/under provision	(171,311)	232,660
Legal and professional fees	4,688,224	1,986,044
Personnel insurance	310,929	430,131
Advertising costs	941,656	169,293
Office equipment maintenance	1,757,086	1,397,639
Subscriptions and donations	279,210	70,000
Computer expenses	540,746	577,529
General insurance	208,034	291,211
Clients training	1,677,956	730,165
	<hr/>	<hr/>
	235,400,766	193,811,706
	<hr/> <hr/>	<hr/> <hr/>

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2009 Sh	2008 Sh
8 STAFF COSTS		
Basic salaries	64,345,286	49,054,475
House allowances	28,015,598	21,867,250
Other staff costs	4,218,208	4,852,096
Provident fund contributions	4,086,770	3,421,893
Medical expenses	2,216,169	2,336,761
Casual wages	366,300	445,365
Staff training	1,480,652	2,214,753
NSSF contributions	475,396	358,725
Provision for leave pay	2,264,820	2,823,773
	<u>107,469,199</u>	<u>87,375,091</u>
	=====	=====
9 TAXATION		
(a) Tax charge		
Current taxation based on the adjusted profit at 30%	6,635,355	4,667,153
Prior year overprovision – Current tax	(299,666)	-
Deferred taxation credit (note 15)	(1,201,575)	(2,392,129)
	<u>5,134,114</u>	<u>2,275,024</u>
	=====	=====
(b) Reconciliation of expected tax based on accounting profit to tax expense		
Accounting profit before taxation	<u>22,448,967</u>	<u>14,507,641</u>
	=====	=====
Tax at the applicable rate of 30%	6,734,691	4,352,292
Tax effect of expenses not deductible for tax purposes	305,454	560,315
Tax effect of grant income not chargeable to tax	(1,606,365)	(2,637,583)
Prior year overprovision – Current tax	(299,666)	-
	<u>5,134,114</u>	<u>2,275,024</u>
	=====	=====
(c) Tax movement		
At 1 January – payable/(recoverable)	1,697,659	(1,011,670)
Paid in the year	(6,221,629)	(1,957,824)
Charge for the year	6,635,355	4,667,153
Prior year overprovision	(299,666)	-
	<u>1,811,719</u>	<u>1,697,659</u>
	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2009 Sh	2008 Sh
10	TREASURY BILLS	
	Held to maturity:	
	-	70,000,000
	-	(814,571)
	-----	-----
	-	69,185,429
	=====	=====

The effective interest rate on treasury bills as at 31 December 2008 was 8.19%.

11 LOANS RECEIVABLE

(a) LOANS RECEIVABLE

Loans to customers	925,035,068	870,354,312
Staff loans	14,372,444	10,870,952
Less: Provision for doubtful loans	(45,205,651)	(53,904,089)
	-----	-----
	894,201,861	827,321,175
	=====	=====

The maturity periods for loans to customers range from 26 to 78 weeks from the date of the loan disbursements. The loans are disbursed to micro and small enterprises and the effective interest rate at 31 December 2009 was 20% (2008 - 20%).

The maturity periods for staff loans range from 1 to 5 years from the date of the loan disbursements. Interest is charged as per the fringe benefit tax rates prescribed by Income Tax Department.

(b) PROVISION FOR IMPAIRED LOANS

At 1 January	53,904,089	18,129,797
Charge for the year (note 7)	31,586,872	35,774,292
Write off in the year	(40,285,310)	
	-----	-----
At 31 December 2009	45,205,651	53,904,089
	=====	=====

12 OTHER RECEIVABLES

	2009 Sh	2008 Sh
Staff receivables	2,018,629	1,327,746
Due from National Council of Churches of Kenya (NCCCK)	-	10,682
Deposits and prepayments	4,196,516	1,852,818
Other receivables	802,861	1,008,970
	-----	-----
	7,018,006	4,200,216
	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2009 Sh	2008 Sh
13 INTANGIBLE ASSETS		
COST		
1 January	21,818,142	18,003,442
Additions	1,771,294	3,814,700
	<hr/>	<hr/>
At 31 December	23,589,436	21,818,142
	<hr/>	<hr/>
AMORTISATION		
1 January	8,182,160	3,818,532
Charge for the year	4,717,888	4,363,628
	<hr/>	<hr/>
At 31 December	12,900,048	8,182,160
	<hr/>	<hr/>
NET BOOK VALUE		
At 31 December	10,689,388	13,635,982
	<hr/> <hr/>	<hr/> <hr/>

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 PROPERTY AND EQUIPMENT

	Freehold land Sh	Buildings Sh	Motor vehicles Sh	Equipment, furniture and and fittings Sh	Total Sh
COST OR VALUATION					
At 1 January 2008	11,241,263	7,483,129	9,068,731	25,351,272	
	53,144,395				
Additions	-	87,420	-	5,017,328	5,104,748
At 31 December 2008	11,241,263	7,570,549	9,068,731	30,368,600	
	58,249,143				
At 1 January 2009	11,241,263	7,570,549	9,068,731	30,368,600	
	58,249,143				
Additions	-	-	6,486,100	5,507,414	
	11,993,514				
Disposals	-	-	(2,911,500)	-	(2,911,500)
Revaluations	40,145,613	14,541,364	-	-	54,686,977
Elimination of accumulated depreciation on revaluation	-	(3,498,789)	-	-	(3,498,789)
At 31 December 2009	51,386,876	18,613,124	12,643,331	35,876,014	
	118,519,345				
Comprising: Cost	-	-	12,643,331	35,876,014	
	48,519,345				
Valuation – 2009	51,386,876	18,613,124	-	-	70,000,000
At 31 December 2009	51,386,876	18,613,124	12,643,331	35,876,014	
	118,519,345				
DEPRECIATION					
At 1 January 2008	-	2,977,436	8,752,700	17,802,465	
	29,532,601				
Charge for the year	-	260,683	113,677	3,655,754	4,030,114
At 31 December 2008	-	3,238,119	8,866,377	21,458,219	
	33,562,715				
At 1 January 2009	-	3,238,119	8,866,377	21,458,219	
	33,562,715				
Charge for the year	-	260,670	1,735,133	3,663,971	5,659,774
Eliminated on disposal	-	-	(2,911,500)	-	(2,911,500)
Eliminated on revaluation	-	(3,498,789)	-	-	(3,498,789)
At 31 December 2009	-	-	7,690,010	25,122,190	
	32,812,200				
NET BOOK VALUES - VALUATION					
At 31 December 2009	51,386,876	18,613,124	4,953,321	10,753,824	

	85,707,145			
	=====	=====	=====	=====
At 31 December 2008	11,241,263	4,332,430	202,354	8,910,381
	24,686,428			
	=====	=====	=====	=====
NET BOOK VALUES - COST				
At 31 December 2009	11,241,263	4,071,760	4,953,321	10,753,824
	31,020,168			
	=====	=====	=====	=====
At 31 December 2008	11,241,263	4,332,430	202,354	8,910,381
	24,686,428			
	=====	=====	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 PROPERTY AND EQUIPMENT (Continued)

Buildings and freehold land were revalued in 2009 by Tysons Valuers Limited, who are registered and independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations.

Included in property and equipment are assets with a cost of Sh 29,785,747 (2008 - Sh 19,440,791) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 7,469,090 (2008 - Sh 4,929,941).

15 DEFERRED TAX ASSET

Deferred income taxes are calculated on all temporary differences under the liability method using the currently enacted tax rate of 30%. The net deferred taxation liability is attributable to the following items:

	2009 Sh	2008 Sh
<i>Assets</i>		
General provisions for doubtful loans	8,163,366	7,799,620
Provision for leave pay	1,526,578	847,132
	<u>9,689,944</u>	<u>8,646,752</u>
<i>Liabilities</i>		
Accelerated capital allowances	(1,789,623)	(2,002,071)
Unrealised exchange gains	(136,526)	(82,461)
	<u>(1,926,149)</u>	<u>(2,084,532)</u>
Net deferred tax asset	<u>7,763,795</u>	<u>6,562,220</u>
	=====	=====
The movement on the deferred tax account is as follows:		
At 1 January	6,562,220	4,170,091
Statement of comprehensive income credit (note 9)	1,201,575	2,392,129
	<u>7,763,795</u>	<u>6,562,220</u>
	=====	=====

16 GROUP LOAN COLLATERAL SAVINGS

Group loan collateral savings represent amounts deposited by customers as collateral for loans advanced to the groups.

The weighted effective interest rate on group loan collateral savings as at 31 December 2009 was 3.2 % (2008 - 3.3%).

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2009 Sh	2008 Sh
17 ACCRUALS AND OTHER LIABILITIES		
Leave pay provision	5,088,593	2,823,773
Sundry payables	7,566,094	10,003,399
Insurance claims	-	407,856
Loan guard*	9,620,036	3,424,005
	22,274,723	16,659,033
	22,274,723	16,659,033
*This is an amount set aside to cover the company against loan loss due to death or incapacity of the client.		
18 BORROWINGS		
Loans:		
The Co-operative Bank of Kenya Limited	146,500,000	109,000,000
Jitegeme Trust Limited	100,000,000	60,000,000
Micro Enterprises Support Programme Trust (MESPT)	69,276,182	69,416,208
Plan International	5,090,000	5,090,000
NCKK Advocacy Programme	2,800,000	2,800,000
Youth Enterprise Development Fund	1,750,000	1,750,000
Women Fund	70,000,000	20,000,000
Kenya Commercial Bank	70,000,000	60,000,000
Liliane Foundation (Euro 12,493)	1,296,347	-
KIVA Microfunds (USD 41,920)	3,160,425	-
CMS Africa	2,000,000	-
	471,872,954	328,056,208
Bank overdraft	1,637,641	36,193,787
	473,510,595	364,249,995
	473,510,595	364,249,995
Maturity of the borrowings		
Due within one year	42,372,550	93,376,489
Due after one year	431,138,045	270,873,506
	473,510,595	364,249,995
	473,510,595	364,249,995
Movement in loan balances:		
At 1 January	328,056,208	179,928,763
Receipts in the year	226,456,772	225,000,000
Repayments in the year	(82,640,026)	(76,872,555)
	471,872,954	328,056,208
At 31 December	471,872,954	328,056,208

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 BORROWINGS (Continued)

Details of security and interest rate for loans and bank overdraft

- a) The company has a term loan facility of up to Sh 200 Million with The Co-operative Bank of Kenya Limited. The term loan attracts interest at a rate of 11 % (2008 - 11%) per annum and is repayable within 60 months on a monthly basis. The loan is secured by a general lien over all the company's collection accounts held with The Co-operative Bank of Kenya Limited and a floating debenture over all assets of the company, with a valuation of Sh 120Million to be up-stamped to Sh 269Million.
- b) Jitegemee Trust Limited loan is repayable in 4 years and is secured by an unlimited irrevocable guarantee by the NCCK, a debenture on all the assets of the company and a lien over all cash inflows being funded by the loan granted. The effective interest rate as at 31 December 2009 was 12 % (2008 - 12%).
- c) MESPT loan is at a flat rate of 9% (2008 – 9%) and is guaranteed by the NCCK
- d) Plan International loan is interest free and is unsecured.
- e) The loan from NCCK Advocacy Programme is interest free and unsecured with no fixed repayment period.
- f) The loan from the Youth Enterprise Development Fund is secured by a floating charge over all assets of the company and is repayable at once after three years expiring in May 2010. The effective interest rate as at 31 December 2009 was 1% (2008 – 1%)
- g) The loan from the Women Fund is secured by a guarantee from NCCK and an irrevocable promissory note from the company. The loan is repayable all at once after 3 years which expire in December 2010. The effective interest rate as at 31 December 2009 was 1% (2008 – 1%).
- h) The Kenya commercial Bank Limited loan is secured by a fixed charge debenture over all assets of the company and a lien over all cash inflows arising from loans issued and being funded by the loan. The effective interest rate as at 31 December 2009 was 9% (2008 – 9%)
- i) The loan from Liliane Foundation is a fund running indefinitely to support persons with disabilities. This attracts no interest.
- j) KIVA operates a web based business that allows website users to connect with lenders that provide small loans to individuals or groups in developing countries. The company entered into an agreement with KIVA in May 2009 and have since been receiving loans at no interest rates.
- k) The CMS Africa is a fund established to finance viable enterprises and to provide entrepreneurial training for qualified small scale entrepreneurs. CMS Africa offered an amount of 2,000,000 in 2009. The fund and any agreed interest accruing to the fund remains the property of CMS Africa. This is also interest free.

19 REVOLVING LOAN FUND

In October 2005, the company entered into an agreement with the Ministry of Labour and Manpower Development, Micro Enterprise Development Project (MEDP) supported by DANIDA for a revolving loan fund to aid farming activities in Taita/Taveta district. The project will run for a period of five years to year 2010.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2009 Sh	2008 Sh
20	NOTE TO THE CASH FLOW STATEMENT	
(a)	Reconciliation of profit before tax to cash Used in operations	
	Profit before tax	22,448,967 14,507,641
	Adjustments:	
	Depreciation and amortisation	10,377,662 8,393,742
	Profit on sale of motor vehicle	(1,000,000) -
	<hr/>	
	Cash generated from operations before working capital changes	31,826,629 22,901,383
	Increase in loans to customers	(66,880,686) (232,399,571)
	Increase in other receivables	(2,817,790) (1,267,261)
	Increase in stationery inventory	(221,983) (176,300)
	Increase in group loan collateral savings	104,897,011 85,233,578
	Increase in accruals and other liabilities	5,615,691 9,006,721
	Interest received	(250,875,926) (178,549,665)
	Interest paid	49,671,142 26,860,073
	<hr/>	
	Cash used in operations	(128,785,912) (268,391,042)
	<hr/>	
(b)	CASH AND CASH EQUIVALENTS	
	Bank and cash balances	320,195,262 88,316,798
	Treasury bills	- 69,185,429
	Bank overdraft	(1,637,641) (36,193,787)
	<hr/>	
	318,557,621	121,308,440
	<hr/>	

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the banks repayable within three months from the dates of advance.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2009 Sh	2008 Sh
21 CAPITAL COMMITMENTS		
Authorised but not contracted for	103,600,000	36,600,000
	=====	=====

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

- a) SMEP is a company limited by guarantee of the National Council of Churches of Kenya (NCCK).
b) Key management compensation

The remuneration of members of key management during the year was as follows:

	2009 Sh	2008 Sh
Salaries and other benefits	20,831,818	13,080,181
	=====	=====

23 RISK MANAGEMENT POLICIES

(a) Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of revenue reserves, revaluation reserves and borrowings.

The company's overall strategy remains unchanged from 2008.

Gearing ratio

The gearing ratio at the year end was as follows:

	2009 Sh	2008 Sh
Revenue reserves	233,714,032	216,399,178
Revaluation surplus	54,686,977	-
	-----	-----
	288,401,009	216,399,178
	=====	=====
Borrowings (note 17)	473,510,595	364,249,995
Revolving fund (note 18)	13,600,000	13,600,000
Treasury bills and bank balances	(320,195,262)	(157,502,227)
	-----	-----
Net Borrowings	166,915,333	220,347,768
	=====	=====
Gearing ratio	57.9%	101.8%
	=====	=====

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RISK MANAGEMENT POLICIES (Continued)

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Financial risk management

The company's activities expose it to a variety of financial risks including credit and liquidity risks as well as effects of changes in interest rates. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

(i) Credit risk

Credit risk refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the company. Receivables consist of Loans receivable and staff loans. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk.

a) Management of Credit risk

The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. All loan receivables are secured by customers' collateral savings.

b) Maximum exposure to credit risk before collateral held

	2009		2008	
	Sh	%	Sh	%
Credit Exposures				
Bank and cash balances	320,195,262	26.22	88,316,798	9.60
Loans and advances to customers	894,201,861	73.21	827,321,175	89.94
Other receivables	7,018,006	0.57	4,200,216	0.46
	<u>1,221,415,129</u>	<u>100</u>	<u>919,838,189</u>	<u>100</u>
	=====	===	=====	===

The above represents the worst case scenario of credit exposure for both years, without taking into account of any collateral held or other credit enhancements attached. While collateral is an important mitigant to credit risk, the company's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. All loans and advances to customers are secured by collateral loan savings.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RISK MANAGEMENT POLICIES (Continued)

(d) Market risk (Continued)

(ii) Interest rate risk

The company is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced at both fixed and floating rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the company's exposure to changes in interest rates and liquidity.

The company holds interest bearing assets in the form of loan advances and treasury bills. An interest rate of 20% per annum is charged on loans advanced. The company also has borrowings in the form of a bank overdraft. Bank overdraft interest rates are charged at the bank's base rate as amended from time to time

The table below summarises the exposure to interest rate risk at the statement of financial position date. Included in the table are the Company's financial instruments at carrying amounts, categorized by the earlier of contractual re pricing or maturity dates.

	Up to 1 Month Sh	1 to 3 Months Sh	4 to 12 Months Sh	Over 1 Year Sh	Non – interest Bearing Sh	Total Sh
FINANCIAL ASSETS						
Bank balances	309,859,292	-	-	-	10,335,970	320,195,262
Loans to customers	129,116,082	291,677,621	473,408,158	-	-	894,201,861
Total financial assets	438,975,374	291,677,621	473,408,158	-	10,335,970	1,214,397,123
FINANCIAL LIABILITIES						
Group loan collateral savings	-	-	(526,719,288)	-	-	(526,719,288)
Borrowings	(7,315,726)	(22,490,234)	(91,262,281)	(336,457,941)	(14,346,772)	(471,872,954)
Bank overdraft	(1,637,641)	-	-	-	-	(1,637,641)
Revolving loan fund	-	-	-	-	(13,600,000)	(13,600,000)
Total financial liabilities	(8,953,367)	(22,490,234)	(617,981,569)	(336,457,941)	(27,946,772)	(1,013,829,883)
Interest rate sensitivity gap	430,022,007	269,187,387	(144,573,411)	(336,457,941)	(17,610,802)	200,567,240
At 31 December 2008						
Total financial assets	88,316,798	69,185,429	827,321,175	-	-	984,823,402
Total financial liabilities	(42,443,787)	(16,063,309)	(464,034,666)	(255,640,509)	(21,490,000)	(799,672,271)
Interest rate sensitivity gap	45,873,011	53,122,120	363,286,509	(255,640,509)	(21,490,000)	185,151,131

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RISK MANAGEMENT POLICIES (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Interest rate risk – sensitivity analysis

The following table details the Company's sensitivity to a 1% increase and decrease in interest rates (all the other variables held constant). 1% is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. For floating rate liabilities the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date was outstanding for the whole year

	Effect on Profit 2009 Sh	Effect on profit 2008 Sh
+ 1% Movement	(496,711)	(268,601)
- 1% Movement	496,711	268,601

(iii) Foreign exchange risk

The company is not exposed to foreign exchange risk hence this risk is not relevant

(iv) Price risk

The company does not hold investments that would be subject to price risk; hence this risk is not relevant.

Liquidity risk management

Liquidity risk is the risk that the company will encounter difficulties in meeting obligations from financial liabilities. The ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows.

SMALL AND MICRO ENTERPRISE PROGRAMME
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date. The amounts disclosed in the table below are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Within 12 months	Over 12 months
	Sh	Sh
At 31 December 2009:		
Group loan collateral savings	526,719,288	-
Accruals and other liabilities	22,274,723	-
Loans	135,415,013	336,457,941
Bank overdraft	1,637,641	-
	<u>686,046,665</u>	<u>336,457,941</u>
	=====	=====
At 31 December 2008:		
Group loan collateral savings	421,822,277	-
Accruals and other liabilities	16,659,033	-
Loans	57,182,702	270,873,506
Bank overdraft	36,193,787	-
	<u>531,857,799</u>	<u>270,873,506</u>
	=====	=====

24 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

25 CURRENCY

The financial statements are presented in Kenya shillings (Sh).