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

FINANCIAL STATEMENTS

31 DECEMBER 2008

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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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 Peter Karanja		
	Mr S Awuor		
	Mr G Kivuti		
	Mr T Matianyi		
CHIEF EXECUTIVE OFFICER	Mrs.P Mbungu		
SECRETARY	L Ndolo P.O Box 45099 00100 GPO Nairobi		
REGISTERED OFFICE	Kirichwa Road LR No. 2/187 P.O Box 64063 00200 City Square 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 2008.

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	14,507,641
Tax charge	(2,275,024)
Profit for the year	12,232,617

DIVIDEND

The company does not pay dividends.

DIRECTORS

The present directors are shown on page 2.

AUDITORS

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

BY ORDER OF THE BOARD

Secretary

Nairobi

April 2009

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The 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

April 2009

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 29 which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 31st December 2008 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)

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 balance sheet and income statement are in agreement with the books of account.

Certified Public Accountants (Kenya)

2009

Nairobi

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
INTEREST INCOME	3	178,549,665	131,361,884
INTEREST EXPENSE	4	(26,860,073)	(23,825,928)
NET INTEREST INCOME		151,689,592	107,535,956
FEE INCOME	5	39,797,173	29,790,103
OTHER OPERATING INCOME	6	16,832,582	6,192,979
OPERATING INCOME		208,319,347	143,519,038
OPERATING EXPENSES	7	(193,811,706)	(142,453,156)
PROFIT BEFORE TAX		14,507,641	1,065,882
TAXATION (CHARGE)/CREDIT	9	(2,275,024)	3,900,535
PROFIT FOR THE YEAR		12,232,617	4,966,417

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

BALANCE SHEET
31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
ASSETS			
Bank and cash balances	20(b)	88,316,798	5,158,515
Treasury bills	10	69,185,429	136,242,440
Loans to customers	11	827,321,175	594,921,604
Other receivables	12	4,200,216	2,932,955
Stationery inventory		519,894	343,594
Intangible assets	13	13,635,982	14,184,910
Property and equipment	14	24,686,428	23,611,794
Taxation recoverable	9(c)	-	1,011,670
Deferred tax	19	6,562,220	4,170,091
TOTAL ASSETS		1,034,428,142	782,577,573
RESERVES AND LIABILITIES			
LIABILITIES			
Group loan collateral savings	15	421,822,277	336,588,699
Accruals and other liabilities	16	16,659,033	7,652,312
Borrowings	17	364,249,995	220,570,001
Revolving loan fund	18	13,600,000	13,600,000
Taxation payable	9(c)	1,697,659	-
TOTAL LIABILITIES		818,028,964	578,411,012
RESERVES			
Revenue reserves		216,399,178	204,166,561
TOTAL RESERVES AND LIABILITIES		1,034,428,142	782,577,573

The financial statements on pages 7 to 29 were approved by the board of directors on April 2009 and were signed on its behalf by:

)
)
) Directors
)
)

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

STATEMENT OF CHANGES IN REVENUE RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2008

	Revenue reserves Sh
At 1 January 2007	199,200,144
Profit for the year	4,966,417
At 31 December 2007	204,166,561
At 1 January 2008	204,166,561
Profit for the year	12,232,617
At 31 December 2008	216,399,178

Revenue reserves represent unexpended project funds and cumulative profits and are not distributable.

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh	2007 Sh
Cash used in operations	20(a)	(266,906,531)	(155,550,283)
Tax paid	9(c)	(473,313)	(3,056,410)
Interest received	3	178,549,665	131,361,884
Interest paid	4	(26,860,073)	(23,825,928)
Net cash used in operations		(118,659,274)	(51,070,737)
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(5,104,748)	(3,208,470)
Purchase of intangible assets	13	(3,814,700)	(7,841,282)
Net cash used in investing activities		(8,919,448)	(11,049,752)
FINANCING ACTIVITIES			
Loans received	17	225,000,000	146,750,000
Loans repayments	17	(76,872,555)	(141,955,335)
Net cash generated from financing activities		148,127,445	4,794,665
Increase/(decrease) in cash and cash equivalents		20,548,723	(57,325,824)
Cash and cash equivalents at 1 January		100,759,717	158,085,541
Cash and cash equivalents at 31 December	20(b)	121,308,440	100,759,717

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

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 standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008)

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

New and revised standards and interpretations in issue not yet adopted

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

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 18, Transfers of Asses from Customers (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1, Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (Revised), Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)

1 ACCOUNTING POLICIES (Continued)

New and revised standards and interpretations in issue not yet adopted (Continued)

- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)
- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. The IASB's annual improvements process deals with non-urgent, minor amendments to the standards.

The directors anticipate that the adoption of these standards and interpretations and amendments to other IFRSs resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2008, when effective, will have no material impact on the financial statement of the company.

Basis of accounting

The company prepares its financial statements on the historical cost basis of accounting.

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.

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 balance sheet 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 the income statement in the year in which they arise.

Inventory

Inventory represents stocks of stationery and is stated at cost.

Property and equipment

Freehold land is stated at cost. All the other property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

1 ACCOUNTING POLICIES (Continued)

Depreciation

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 income statement in the year they arise.

Intangible assets-computer software costs

Costs incurred on computer software are 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.

Financial assets

The company classifies its financial assets into the category of loans and receivables. 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.

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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as other receivables, assets are assessed for impairment individually. Objective evidence of impairment for receivables could include the company’s past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

1 ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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 income statement.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

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

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.

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.

Group loan collateral savings

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

Derecognition of financial liabilities

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

1 ACCOUNTING POLICIES (Continued)

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 balance sheet.

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 income statement 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 income statement as they fall due.

2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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 balance sheet 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 balance sheet 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.

	2008 Sh	2007 Sh
3 INTEREST INCOME		
Interest on loans	167,807,654	122,736,476
Interest on treasury bills and short term deposits	10,742,011	8,625,408
	178,549,665	131,361,884
4 INTEREST EXPENSE		
Interest on loans	21,727,467	19,459,128
Interest on group collateral savings	4,622,510	4,249,100
Interest on bank overdraft	510,096	60,457
Foreign exchange loss	-	57,243
	26,860,073	23,825,928

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2008 Sh	2007 Sh
5	FEE INCOME		
	Loan disbursement fees	22,357,259	18,053,377
	Loan application fees	13,594,427	9,763,466
	Membership fees	3,845,487	1,973,260
		39,797,173	29,790,103
6	OTHER OPERATING INCOME		
	Grant income	8,791,943	-
	Sundry income	3,751,859	4,459,247
	Unrealised exchange gains	274,870	-
	Training fees	4,013,910	1,733,732
		16,832,582	6,192,979
7	OPERATING EXPENSES		
	Staff costs (note 8)	87,375,091	68,053,114
	Bad and doubtful debts	35,774,292	22,825,636
	Transformation costs	16,921,290	10,119,887
	Depreciation and amortisation	8,393,742	8,138,775
	Bank charges	8,495,863	4,664,190
	Office rent	10,092,284	4,567,483
	Travel and transport costs	6,631,660	4,432,690
	Programme costs	3,896,754	3,643,568
	Communication expenses	2,992,365	3,040,289
	Printing and stationery	3,940,305	2,698,415
	Loans receivable insurance	-	2,631,335
	Office expenses	2,642,602	2,138,144
	Auditors' remuneration	1,476,760	1,317,740
	Legal and professional fees	1,512,731	1,832,641
	Personnel insurance	430,131	659,233
	Advertising costs	169,293	334,203
	Office equipment maintenance	1,397,639	306,850
	Subscriptions and donations	70,000	261,470
	Computer expenses	577,529	297,264
	General insurance	291,211	250,166
	Clients training	730,164	228,871
	Fidelity insurance	-	11,192
		193,811,706	142,453,156

		2008 Sh	2007 Sh
8	STAFF COSTS		
	Basic salaries	49,054,475	39,858,524
	House allowances	21,867,250	18,695,660
	Other staff costs	4,852,096	3,904,059
	Provident fund contributions	3,421,893	2,952,771
	Medical expenses	2,336,761	1,749,922
	Casual wages	445,365	397,173
	Staff training	2,214,753	214,670
	NSSF contributions	358,725	280,335
	Provision for leave pay	2,823,773	-
		87,375,091	68,053,114

9 TAXATION

(a) Tax expense

Current taxation based on the adjusted profit at 30%	4,667,153	1,505,324
Deferred taxation credit(note 19)	(2,392,129)	(1,048,745)
Prior year overprovision- Deferred tax	-	(3,446,566)
-Current tax	-	(910,548)
	2,275,024	(3,900,535)

(b) Reconciliation of expected tax based on accounting profit to tax expense

Accounting profit before taxation	14,507,641	1,065,882
Tax at the applicable rate of 30%	4,352,292	319,765
Tax effect of expenses not deductible for tax purposes	560,315	136,814
Tax effect of grant income not chargeable to tax	(2,637,583)	-
Prior year overprovision- Deferred tax	-	(3,446,566)
- Current tax	-	(910,548)
	2,275,024	(3,900,535)

(c) Tax movement

At 1 January – (recoverable)/payable	(1,011,670)	1,449,964
Paid in the year	(474,313)	(3,056,410)
Withholding tax deducted	(1,484,511)	-
Charge for the year	4,667,153	1,505,324
Prior year overprovision	-	(910,548)
At 31 December – payable /(recoverable)	1,697,659	(1,011,670)

		2008 Sh	2007 Sh
10	TREASURY BILLS		
	Held to maturity:		
	Face value - maturing within 90 days	70,000,000	137,050,000
	Less: unearned discount	(814,571)	(807,560)
		69,185,429	136,242,440

The weighted average effective interest rate on treasury bills as at 31 December 2008 was 8.19% (2007 - 6.85%).

11 LOANS RECEIVABLE

Loans to customers	870,354,312	609,870,503
Staff loans	10,870,952	3,347,215
Less: Provision for doubtful loans	(53,904,089)	(18,296,114)
	827,321,175	594,921,604

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 2008 was 20% (2007 - 20%).

The maturity periods for staff loans range from 1 to 3 years from the date of the loan disbursements. Interest is charged as per the fringe benefit tax rates prescribed by Income Tax Department.

12 OTHER RECEIVABLES

	2008 Sh	2007 Sh
Staff receivables	1,327,746	29,515
Due from National Council of Churches of Kenya (NCCK)	10,682	77,136
Deposits and prepayments	2,861,788	2,246,620
Withholding tax recoverable	-	233,653
Accrued interest receivable	-	346,031
	4,200,216	2,932,955

		2008 Sh	2007 Sh
13	INTANGIBLE ASSETS		
	COST		
	1 January	18,003,442	10,162,160
	Additions	3,814,700	7,841,282
	At 31 December	21,818,142	18,003,442
	AMORTISATION		
	1 January	3,818,532	704,791
	Charge for the year	4,363,628	3,113,741
	At 31 December	8,182,160	3,818,532
	NET BOOK VALUE		
	At 31 December	13,635,982	14,184,910

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					
At 1 January 2007	11,241,263	7,483,129	8,714,025	22,497,508	49,935,925
Additions	-	-	354,706	2,853,764	3,208,470
At 31 December 2007	11,241,263	7,483,129	9,068,731	25,351,272	53,144,395
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
DEPRECIATION					
At 1 January 2007	-	2,623,587	6,787,990	15,095,990	24,507,567
Charge for the year	-	353,849	1,964,710	2,706,475	5,025,034
Eliminated on disposal	-	-	(2,558,420)	-	(2,558,420)
At 31 December 2007	-	2,977,436	8,752,700	17,802,465	29,532,601
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
NET BOOK VALUES					
At 31 December 2008	11,241,263	4,332,430	202,354	8,910,381	24,686,428
At 31 December 2007	11,241,263	4,505,693	316,031	7,548,807	23,611,794

Included in property and equipment are assets with a cost of Sh 19,440,791 (2007 - Sh 19,440,791) which were fully depreciated. The normal depreciation charge on these assets would have been Sh 4,929,941 (2007 - Sh 4,929,941).

15 GROUP LOAN COLLATERAL SAVINGS

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

The weighted average effective interest rate on group loan collateral savings as at 31 December 2008 was 3.3% (2007 - 3.2%).

		2008 Sh	2007 Sh
16	ACCRUALS AND OTHER LIABILITIES		
	Accruals	6,030,422	1,246,836
	Sundry payables	6,796,750	6,356,369
	Insurance claims	407,856	49,107
	Loan guard fund	3,424,005	-
		16,659,033	7,652,312
17	BORROWINGS		
	Loans:		
	The Co-operative Bank of Kenya Limited	109,000,000	78,500,000
	Jitegemee Trust Limited	60,000,000	13,327,434
	Micro Enterprises Support Programme Trust (MESPT)	69,416,208	58,461,329
	Plan International	5,090,000	5,090,000
	NCCK Advocacy Programme	2,800,000	2,800,000
	Youth Enterprise Development Fund	1,750,000	1,750,000
	Women Fund	20,000,000	20,000,000
	Kenya Commercial Bank	60,000,000	-
		328,056,208	179,928,763
	Bank overdraft (secured)	36,193,787	40,641,238
		364,249,995	220,570,001
	Maturity of the borrowings		
	Due within one year	93,376,489	140,401,030
	Due after one year	270,873,506	80,168,971
		364,249,995	220,570,001
	Movement in loan balances:		
	At 1 January	179,928,763	175,134,098
	Receipts in the year	225,000,000	146,750,000
	Repayments in the year	(76,872,555)	(141,955,335)
	At 31 December	328,056,208	179,928,763

Details of security and interest rate for loans and bank overdraft

a) The company has a term loan facility of up to Ksh 200 Million with the Co-operative Bank of Kenya Limited .The term loan attracts interest at a rate of 11 % (2007 - 11%) per annum and is repayable within 60 months on a monthly basis. The loan is secured by a lien over the company's investment in treasury bills with a current maturity value of Ksh 70Million, a general lien over all the company's collection accounts held with the Co-operative bank and a floating debenture over all assets of the company, with a valuation of Ksh 120Million to be up-stamped to Ksh269Million.

17 BORROWINGS (Continued)

Details of security and interest rate for loans and overdrafts (Continued)

b) Jitegemee Trust Limited loan is payable in 3 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 2008 was 12% (2007 - 10%).

c) MESPT loan is at a flat rate of 9% (2007 – 6%) and is guaranteed by the NCCK

d) Plan International loan is interest free and unsecured.

e) The loan from NCCK Advocacy Programme was interest free and unsecured with no fixed repayment period.

f) The bank overdraft is from the Co-operative bank of Kenya Limited and is secured by the same securities detailed under (a) above. The effective interest rate as at 31 December 2008 was 13% (2007 – 13%).

g) The loan from the Women Fund is secured by a guarantee from NCCK and an irrevocable promissory note from SMEP. The loan is repayable all at once after 3 years which expire in December 2010. The total loan allocation to SMEP was Sh 60 million but only Sh 20 million has been received. The effective interest rate as at 31 December 2008was 1% (2007 – 1%)

h) The loan from the Youth Enterprise Fund is secured by a floating charge over all assets of SMEP and is repayable at once after three years expiring in May 2010. The effective interest rate as at 31 December 2008was 1% (2007 – 1%)

i) The Kenya commercial bank loan is secured by a fixed charge debenture over all assets of SMEP 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 2008was 9% (2007 – nil)

18 REVOLVING LOAN FUND

In October 2005, SMEP 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 2009.

19 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:

	2008 Sh	2007 Sh
Assets		
General provisions for doubtful loans	7,799,620	5,488,834
Provision for leave pay	847,132	-
	8,646,752	5,488,834
Liabilities		
Accelerated capital allowances	(2,002,071)	(1,318,743)
Unrealised exchange gains	(82,461)	-
	(2,084,532)	(1,318,743)

		2008 Sh	2007 Sh
19	DEFERRED TAX ASSET (CONTINUED)		
	Net deferred tax asset	6,562,220	4,170,091
	The movement on the deferred tax account is as follows:		
	At 1 January	4,170,091	(325,220)
	Income statement credit (note 9)	2,392,129	1,048,745
	Prior year overprovision	-	3,446,566
		6,562,220	4,170,091

			2008 Sh	2007 Sh
20	NOTE TO THE CASH FLOW STATEMENT			
	(a)	Reconciliation of profit before tax to cash Used in operations		
		Profit before tax	14,507,641	1,065,882
		Adjustments:		
		Depreciation and amortisation	8,393,742	8,138,775
		Cash generated from operations before working capital changes	22,901,383	9,204,657
		Increase in loans receivable	(232,399,571)	(147,253,636)
		Increase in other receivables	(1,267,261)	(430,009)
		(Increase)/decrease in inventory	(176,300)	320,178
		Increase in group loan collateral savings	85,233,578	89,766,649
		Increase in accruals and other liabilities	9,006,721	377,834
		Interest received	(177,065,154)	(131,361,884)
		Interest paid	26,860,073	23,825,928
		Cash used in operations	(266,906,531)	(155,550,283)
	(b)	CASH AND CASH EQUIVALENTS		
		Bank and cash balances	88,316,798	5,158,515
		Treasury bills	69,185,429	136,242,440
		Bank overdraft	(36,193,787)	(40,641,238)
			121,308,440	100,759,717

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.

		2008 Sh	2007 Sh
21	CAPITAL COMMITMENTS		
	Authorised but not contracted for	36,600,000	39,705,184

	2008 Sh	2007 Sh
22 CONTINGENT LIABILITIES		
Guarantees	-	15,000,000

The company has guaranteed a loan advanced to the National Council of Churches of Kenya (NCCK) by the Cooperative Bank of Kenya Limited.

23 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 were as follows:

	2008 Sh	2007 Sh
Salaries and other benefits	13,080,181	11,214,308

24 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 maximizing the return to stakeholders through the optimisation of the debt and equity balance.

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

The company's overall strategy remains unchanged from 2007.

Gearing ratio
The gearing ratio at the year end was as follows:

	2008 Sh	2007 Sh
Borrowings (note 17)	364,249,995	220,570,001
Revolving fund (note 18)	13,600,000	13,600,000
Cash and Cash Equivalents	(157,502,227)	(141,400,955)
Net Borrowings	220,347,768	92,769,046
Revenue reserves	212,867,229	204,166,561
Gearing ratio	103.5	45.44

24 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.

(e) 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.

Market risk

(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.

I. 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.

II. Maximum exposure to credit risk before collateral held

	2008		2007	
	Sh	**%**	**Sh**	**%**
Credit Exposures				
Bank and cash balances	88,316,798	9.60	5,158,515	0.85
Loans and advances to customers	827,321,175	89.94	594,921,604	98.66
Other receivables	4,200,216	0.46	2,932,955	0.49
	919,838,189	**100**	**558,013,074**	**100.00**

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.

24 RISK MANAGEMENT POLICIES (Continued)

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 balance sheet 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	**1 to 3 Months**	**4 to 12 Months**	**Over 1 Year**	**Non – interest Bearing**	**Total**
	Shs	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
FINANCIAL ASSETS						
Bank and cash balances	88,316,798	-	-	-	-	88,316,798
Treasury bills	-	69,185,429	-	-	-	69,185,429
Loans to customers	-	-	827,321,175	-	-	827,321,175
Total financial assets	88,316,798	69,185,429	827,321,175	-	-	984,823,402
FINANCIAL LIABILITES						
Group loan collateral savings	-	-	(421,822,277)	-	-	(421,822,277)
Borrowings	(6,250,000)	(16,063,309)	(42,212,389)	(255,640,509)	(7,890,000)	(328,056,207)
Bank overdraft	(36,193,787)	-	-	-	-	(36,193,787)
Revolving loan fund	-	-	-	-	(13,600,000)	(13,600,000)
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	388,942,836	(255,640,509)	(21,490,000)	210,807,458
At 31 December 2007						
Total financial assets	5,158,515	136,242,440	594,921,604	-	-	736,322,559
Total financial liabilities	(40,641,238)	(10,942,164)	(504,074,694)	(78,844,182)	(21,490,000)	(655,992,278)
Interest rate sensitivity gap	(35,482,723)	125,300,276	90,846,910	(78,844,182)	(21,490,000)	80,330,281

24 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 balance sheet date was outstanding for the whole year

	Effect on profit 2008 Shs	**Effect on profit 2007 Shs**
+ 1% Movement	(268,601)	(238,259)
- 1% Movement	268,601	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 difficulty 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. Included in note 16 is a listing of additional undrawn facilities that the company has at its disposal to further reduce liquidity risk.

24 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 balance sheet 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**
	Shs	**Shs**
At 31December 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	-
	==========	==========
At 31December 2007:		
Group loan collateral savings	336,588,699	-
Accruals and other liabilities	7,652,312	-
Loans	99,759,792	80,168,971
Bank overdraft	40,641,238	-
	==========	==========

25 COUNTRY OF INCORPORATION

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

26 CURRENCY

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