



K-FINANCE LTD
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



June 2020

REPORT OF DIRECTORS

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CORPORATE INFORMATION

Management

The management of the company at the date of this report all of whom have served throughout the year unless as otherwise indicates are as follows:

Name	Position
Judith Minzi	Chief Executive Officer
Neema Lyimo	Finance and Administration Manager
Happiness Pasha	Credit Manager
Daudi Kilasara	Credit Risk Manager
Japhet Marwa	Risk and Compliance Manager
Yusuph Mbalwa	Internal Auditor
Fadhil Sebeku	Legal Attorney

Registered office and place of business

Block "A", Mikocheni Garden Road
P.O. Box 19111
Dar es Salaam

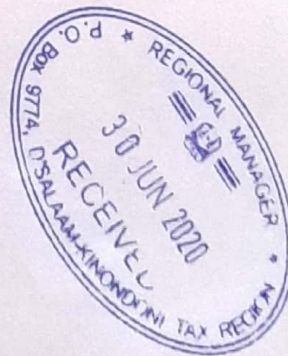
External auditors

RM Auditors
P.O. Box 80253
Dar es Salaam

Main bankers

CRDB Bank PLC.
Kijitonyama Branch
Dar es Salaam

NMB Bank PLC.
Mlimani City Branch
Dar es Salaam



REPORT OF DIRECTORS

Directors

The directors of the company at the date of this report all of whom have served throughout the year unless as otherwise indicated are as follows:

Name	Position	Nationality	Remarks
Devotha Minzi	Chairperson	Tanzanian	None
Dorothy Massawe	Member	Tanzanian	None
Mercy Msuya	Member	Tanzanian	None
Frederick Msumali	Member	Tanzanian	None
Isaac Saburi	Member	Tanzanian	None

Board attendance	Q1 16/2/2019	Q2 11/5/2019	Q3 24/08/2019	Q4 30/11/2019	Attendance
Devotha Minzi	x	√	√	√	3
Dorothy Stephen	x	√	√	x	2
Mercy Msuya	√	√	√	√	4
Frederick Msumali	√	x	√	x	2
Isaac Saburi	√	√	√	√	4

Risk and credit committee attendance

	Q1 09/02/2019	Q2 09/04/2019	Q3 10/08/2019	Q4 16/11/2019	Attendance
Devotha Minzi	√	√	√	√	4
Frederick Msumali	√	√	√	x	3
Isaac Saburi	√	√	√	√	4

Governance committee attendance

	Q1 6/2/2019	Q2 24/04/2019	Q3 03/08/2019	Q4 13/11/2019	Attendance
Devotha Minzi	√	√	√	√	4
Dorothy Stephen	√	√	√	√	4
Mercy Msuya	√	√	√	√	3

Introduction

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2019, which discloses the situation of the Company as at that date. This report has been prepared in accordance with the Tanzania Financial Reporting Standard (TFRS) No. 1, Directors' Report issued by the National Board of Accountants and Auditors (NBAA).

Incorporation and registered office

K-Finance Limited was incorporated in Tanzania on 16 January 2008 under the Companies Act, 2002. Its registered office is situated at Mikocheni, Rose Garden road, near Pakistan Embassy, P.O. Box 19111, Dar es Salaam.

Company vision

To be a Microfinance Institution that flourish the needs of its clients

Company mission

To provide financial solutions to individual and enterprises competitively and timely.

Principal activities

K-Finance was established to fill in the gap of financing to the people in the low income to middle income bracket, operating in the semi informal sector that was traditionally not financed by the formal financial sector. K-Finance have traditionally been unwilling to provide loans to low to mid income entrepreneurs working in the informal sector due to the perceived risks. It is commonly understood that this sector of the market is characterized with people with very low income, low education or completely illiterate, no collateral, no credit history and they are not employed by anybody other than themselves.

Management

The management of the company is under the Chief Executive Officer, organized in three departments and two outsourced functions.

- Credit operations.
- Business development
- Finance and Administration
- Internal audit - outsourced function
- Legal - outsourced function

Competence

Staff are recruited in formal process, provided with a clear Job description that is periodically reviewed through an established performance appraisal system. There are periodical trainings, both in house and externally, that helps to consolidate existing staff skills and competences.

Results for the year

The results for the year are set out on page 12 of these financial statements. The results for the previous year to 31 December 2019 are also provided on page 12.

Dividend

The directors propose a final dividend of 40% on net profit (2019). The dividend is subject to approval by the Annual General Meeting.

Solvency

The Company's situation as of 31 December 2019 is set out on page 12 of these financial statements. The Board considers the Company to be solvent and the financial statement has been prepared undergoing concern basis.

Employee welfare

Management/employee relationship continued to be good during the year. There were no unresolved complaints by the employees at the end of the year. The average number of persons employed during the year 17 (Male 6 and female 11).

Environmental control program

K-finance Ltd monitors the impact of its operations on the environment, which is mainly using power, water, and the generation of waste. The K-Finance minimizes its impact through the better use of its premises and inbuilt facilities to ensure that there is proper waste management.

Related party transactions

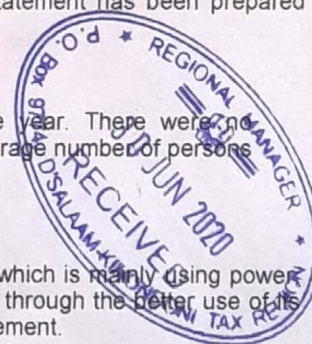
Details of transactions and balances with related parties are disclosed in note 20 of the notes to the financial statements.

Going concern assumption

The Directors confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the K-Finance Limited has adequate resources to continue in operational existence for the foreseeable future.

Risk management and internal control

The Board accepts final responsibility for the risk management and internal control system of the Company. The Board assessed the internal control system throughout the financial year ended 31 December 2019 and is on opinion that the Company had adequate internal financial and operational control system.



REPORT OF DIRECTORS

December 2019 and is on opinion that the Company had adequate internal financial and operational control system.

Corporate governance

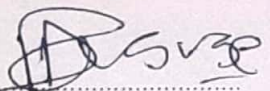
The Board of directors consists of 5 non-executive directors. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering, and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that comprehensive system of internal control, policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board of directors delegates the day to day management of the business to Chief Executive Officer assisted by senior management. The Chief Executive officer and Senior Management team are invited to attend board meetings and facilitates the effective control of all the Company's operational activities, acting as medium of communication and coordination between all the various business units. The Company is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency, and accountability.

Auditors

RM auditors have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of RM auditors as auditors of the Company will be put to the annual general meeting.

By order of directors


Devotha Ntuke Minzi
Chairperson



15th June 2020



STATEMENT OF DIRECTORS RESPONSIBILITIES

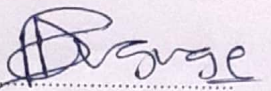
The Company's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The Company's directors are also responsible for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risks management.

The directors have assessed the Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead. The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of the Company, as indicated above, were approved by the Board of Directors on and are signed on its behalf by:


Devotha Ntuke Minzi
Chairperson



15th June 2020



ACCOUNTANT DECLARATION ON FINANCIAL STATEMENTS

The National Board of Accountants and Auditors (NBAA) according to the power conferred to it under the Auditors and Accountants (Registration) Act No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with the statement of declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing the financial statement of the Company showing true and fair view position of the Company in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania. Full legal responsibility for the financial statement's rests with the Board of Directors as indicated in the Statement of Directors' Responsibilities on the previous page.

I, ILBERT MINZI being the Head of finance of K-Finance Limited hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2019 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania.

I thus confirm that the financial statements give true and fair view position of K-finance Limited in Tanzania as on that date and that they have been prepared based on properly maintained financial records.

Signature: ILBERT MINZI

Position: FINANCE MANAGER

NBAA Membership No.: GA 6404

15 June 2020



REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

To Members of the company
K-Finance Limited
P. O. Box 19111
Dar es Salaam

Opinion

We have audited the financial statements of K-Finance Limited, which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of K-Finance Limited in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in United Republic of Tanzania and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is enough and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information set out on page 3 to 5. The other information comprises the information included in the company information, report of the directors and the statement of directors' responsibilities, declaration of head of finance on the financial statements but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, and then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. Directors are responsible for overseeing the company's financial reporting process.

Auditors' responsibilities for the audit of the financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is enough and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the company audit. We remain solely responsible for our audit opinion.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

The Tanzania Companies Act, 2002 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- 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.
- In our opinion proper books of accounts have been kept by the company, so far as appears from our examination of those books.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

- (iii). The directors report is consistent with the financial statements.
- (iv). Information specified by the Tanzanian Companies Act, 2002 regarding director's remuneration and transactions with the company is disclosed; and
- (v). The company's statement of financial position and profit or loss and other comprehensive income agree with the books of accounts.

The engagement partner on the audit resulting in this independent auditors' report is CPA Hussein J Manoni.

RM Auditors & Insider Assurance Services



Signed by: Hussein J Manoni
Dar es Salaam

16 June 2020



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2019 TZS	2018 TZS
Interest income		902,927,067	605,057,924
Interest expense	3	(26,415,992)	(58,294,599)
Net interest income		876,511,074	546,763,325
Loan Impairment charges		(51,357,522)	(85,787,212)
Net Interest Income after loan impairment		825,153,552	460,976,113
Fees on commission income	4	40,395,400	97,821,731
Fees and commission expenses	5	(4,709,639)	(2,307,833)
Net fee and commission income		35,685,761	95,513,898
Total Operating income		860,839,313	556,490,011
Other income	6	-	70,584,384
Total Income		860,839,313	627,074,395
Personnel costs	7	328,914,705	246,442,649
Administrative expenses	8	338,715,238	326,656,866
Depreciation and amortization	10	15,311,840	29,210,690
Total Operating expenses		682,941,783	602,310,205
Gross profit before tax		177,897,530	24,764,191
Income tax expense		(53,770,558)	(7,500,000)
Net profit after tax		124,126,972	17,264,191

Notes and related statements forming part of these financial statements appear on pages 16 to 34

Report of the auditors – pages 9-11



STATEMENT OF FINANCIAL POSITION

Assets		2019 TZS	2018 TZS
Property and equipment	10	66,665,215	68,302,233
Intangible assets			
Current assets			
Cash and cash equivalents	11	(157,083,292)	69,204,221
Loan to customers	12	764,940,592	698,826,644
Receivables and prepayments	13	24,810,705	30,620,262
Financial investment assets	14	13,000,000	13,000,000
Total current assets		645,668,004	811,651,127
Total Assets		712,333,219	879,953,360
LIABILITIES AND EQUITY			
NON CURRENT LIABILITIES			
Term loans	15	21,955,022	213,134,841
Deferred tax liability	16	25,842,109	27,168,344
		47,797,130	240,303,184
CURRENT LIABILITIES			
Trade and other payables	17	81,579,729	110,278,141
Loan security refundable	18	16,843,050	19,743,050
Tax payable/Other payables	19	58,470,617	126,113,264
TOTAL LIABILITIES		156,893,397	256,134,455
EQUITY			
Issued and paid up ordinary shares		280,000,000	280,000,000
Accumulated profit		227,642,692	103,515,720
TOTAL EQUITY		507,642,692	383,515,720
TOTAL EQUITY AND LIABILITIES		712,333,219	879,953,360

Devotha Ntuke Minzi
Devotha Ntuke Minzi
Chairperson



15th June/ 2020

Notes and related statements forming part of these financial statements appear on pages 16 to 34

Report of the auditors – pages 9-11

STATEMENT OF CHANGE IN EQUITY

	Share Capital TZS	Retained earnings TZS	Total equity TZS
Year ended 31 December 2019			
At start of year	280,000,000	103,515,720	383,515,720
Profit for the year		124,126,972	124,126,972
At end of year	280,000,000	227,642,692	507,642,692

Notes and related statements forming part of these financial statements appear on pages 16 to 34

Report of the auditors – pages 9-11



STATEMENT OF CASHFLOWS

	2019 TZS	2018 TZS
Cashflows from operating activities		
Profit before income tax	177,897,530	24,764,191
Adjustment for		
Depreciation and amortisation	15,311,840	29,210,690
Loss/(gain) in disposal of property and equipment	1,378,700	-
Increase in impairment charges	-	-
Cash flows from operating profit before changes in working capital	194,588,071	53,974,881
Movement in working capital items		
Increase in loans to customers	(66,113,948)	53,583,515
Increase in receivables and prepayments	5,809,557	(4,136,914)
Increase/(decrease) in creditors and accruals	(96,341,058)	(72,088,413)
Decrease in loan security refundable	(2,900,000)	(11,705,960)
Increase in deferred tax	(1,326,235)	9,869,901
Change in tax	(53,770,558)	76,518,601
Cash generated from operating activities	(20,054,172)	106,015,611
Tax paid	-	-
Cash flows from investing activities		
Acquisitions of property and equipments	(29,053,522)	(16,009,000)
Proceeds from disposal of property and equipment	14,000,000	13,249,293
Net cash used in investing activities	(15,053,522)	(2,759,707)
Cash flows from financing activities		
Decrease in term loan	(191,179,819)	(80,615,159)
Net cash flows from financing activities	(191,179,819)	(80,615,159)
Net increase in cash and cash equivalent	(226,287,513)	22,640,745
Cash and cash equivalent at start of year	69,204,221	46,563,476
Cash and cash equivalent at end of year	(157,083,292)	69,204,221

Notes and related statements forming part of these financial statements appear on pages 16 to 34

Report of the auditors – pages 9-11

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY

K-Finance (T) Limited (the "Company") is a company domiciled in Tanzania. The financial statements of the Company are for the year ended 31 December 2019. The comparative period information has been made up for a 12-month period ending 31 December 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurements

The financial statements are prepared on the historical cost basis except for the financial instruments which is measured at fair value through profit. The methods used to measure fair value are discussed further in note 3d of these financial statements.

(c) Functional and presentation currency

The financial statements are presented in Tanzanian Shillings (TZS), which is the Company's functional currency.

(d) Use of estimate and judgment

The preparation of the financial statements in conformity with IFRSs requires management to make judgment, estimates and assumptions that affects the application of policies and reported amounts of assets and liabilities, income, and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currencies

Transactions in foreign currencies (if any) are translated to the functional currency (Tanzanian Shillings) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss in the period in which they arise.

(b) Interest income and expense

Fees and commission income are recognized in the Statement of Profit or Loss and Comprehensive Income on accrual basis of accounting. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company, the stage of completion at the balance sheet date can be measured reliably, the costs incurred, or to be incurred, in respect of the transaction can be measured reliably and the revenue can be reliably measured.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The EIR (and therefore, the amortised cost of

NOTES TO FINANCIAL STATEMENTS

the asset) is calculated by considering any discount or premium on acquisition, fees and costs that are an integral part of the EIR.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss. Any accrued but uncollected interest on credit accommodations placed on non-accrual basis shall be reversed and placed in suspense.

The company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired of assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the company reverts to calculating interest income on a gross basis.

(c) Fees and commissions

Fees and commission income and expense are that integral to the effective interest rate on the financial assets or financial liabilities are included in measurement of effective interest rate. Other fees and commission income, including accounting servicing fees are reorganized as the related services performed. If a loan committed is not expected to result the drawdown of the loan, then the related loan committed fees are recognized on a straight-line basis over the committed period. Other fees and commission expenses related mainly to transaction and service fees, which are expensed as the services received.

(d) Financial instruments**i. Non derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are initially recognized at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. After initial recognition non-derivative financial instruments are measured as described below:

ii. Cash and cash equivalent

Cash and cash equivalents comprise cash balances and bank deposits, bank overdrafts (if any) that are repayable on demand and form an integral part of the Company's cash management, are included as component of cash and cash equivalents for the purpose of the statement of cash flows.

iii. Financial asset at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and make purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in statement of profit or loss and other comprehensive income.

iv. Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

v. Share capital

Ordinary shares are classified as equity.

(e) Motor vehicles and equipment**i) Recognition and measurement**

Items of motor vehicles and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to the working condition for its intended use, and the costs of dismantling and

NOTES TO FINANCIAL STATEMENTS

removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets is recognized in profit or loss as incurred.

When parts of an item of motor vehicles and equipment have different useful lives, they are accounted for as separate items (major components) of motor vehicles and equipment. Gains and losses on disposal of an item of motor vehicles and equipment are determined by comparing the proceeds from disposal with the carrying amount of motor vehicles and equipment and are recognized net within the income statement.

ii) Subsequent cost

The cost of replacing part of an item of motor vehicles and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of day to day servicing of motor vehicles and equipment are recognized in the income statement as incurred.

iii) Depreciation

Depreciation is recognized in the income statement on a reducing balance basis over the estimated useful lives of each part of an item of motor vehicles and equipment.

The annual reducing balance for the current and comparative periods is as follows:

• Motor vehicles	25%
• Office equipment	12.5%
• Equipment	12.5%
• Computers	33.3%

Depreciation methods, useful lives and residual values are reviewed at each reporting date

(e) Intangible assets

Other intangible assets that are acquired by the Company and have finite useful life are measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization

Intangible assets are amortized on straight line basis in profit or loss over their estimated useful lives from the date that they are available for use. Estimated useful lives for the software for current and comparative year is 20%

(f) Financial instruments

Financial instrument is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

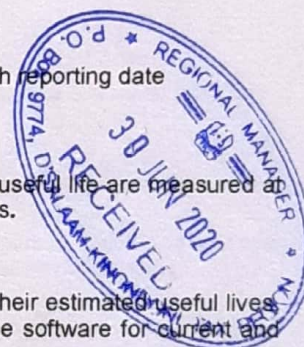
A financial asset or liability other than loans and advances to customers and balances due to customers are initially recognized when the company becomes party to the contractual provisions of the instrument (The trade date). For Loans and advances to customers are recognized when funds are transferred to the customers' accounts and the company recognizes balances due to customers when funds are transferred to the Bank.

The company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised costs,
- Fair value through other comprehensive Income (FVOCI) and
- Fair value through Profit and Loss (FVPL).

i. Financial instruments at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be



NOTES TO FINANCIAL STATEMENTS

measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- The liabilities are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss except for movements in fair value of liabilities designated at FVPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss.

ii. Financial instrument at fair value through other comprehensive income.

Financial assets and liabilities are categorized as FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test
- These instruments largely constitute those assets that had been previously classified as financial investments available for sale.

iii. Loans and advances to customers, financial investments at amortised cost

K- Finance only measures due from company, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Loans and receivables are initially recognized at fair value; which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to customers or as investment securities.

iii. Loans and advances to customers, financial investments at amortised cost (Continued)

Interest on loans is included in the statement of profit or loss and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of profit or loss as 'loan impairment charges'.

iv. Recognition of financial assets

Management determines the appropriate classification of its investments at initial recognition. The Company uses trade date accounting for regular way contracts when recording financial asset transactions.

v. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry

NOTES TO FINANCIAL STATEMENTS

group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty

spreads) existing at the balance sheet date. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for loans and advances as well as liabilities to company and customers are determined using a present value model based on contractually agreed cash flows, considering credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.17 Financial liabilities

After initial recognition, the Company measures all financial liabilities including customer deposits other than liabilities held for trading at amortized cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

2.18 Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability.

vi. Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have been transferred, the company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

vii. Classes of financial instruments

The Company classifies the financial assets and liabilities into classes that reflect the nature of information and consider the characteristics of those financial instruments. The classification made can be seen in the table as follows:

Item on balance sheet	Class
Financial assets	
Cash and cash equivalents	Amortised cost
Loans and advances to customers	Amortised cost
Placements in Company	Amortised cost
Financial liabilities	
Deposit from customers	Financial liabilities at amortised cost
Other liabilities	Financial liabilities at amortised cost

NOTES TO FINANCIAL STATEMENTS CONT.....

viii. Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are

driven by several factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment

ix. Impairment of financial assets

- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs. Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

x. Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

xi. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets (if any) that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

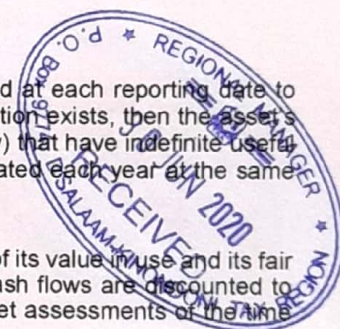
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Non-financial assets

The carrying amount of Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together.



NOTES TO FINANCIAL STATEMENTS CONT.....

into the smallest group of assets that generates cash inflows from continuing use that are largely dependent of the cash inflows of other assets or group of assets (the "cash-generating unit"). An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Employee benefit**i) Defined contribution plans**

K-Finance makes statutory contributions to the National Social Security Fund (NSSF) and GEPF. The Company's obligations in respect of contributions to such funds are 10% of the employees' gross emoluments. Contributions to these pension funds are recognized as an expense in the period the employees render the related services.

ii) Termination benefits

Termination benefits are recognized as an expense in the year when it becomes payable. Termination benefits are determined in accordance with the Tanzanian Labour Laws.

iii) Short term benefit

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(g) Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Operating lease payments

Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Finance expenses

Finance expenses comprise interest expenses on borrowings, changes in fair value of financial assets at fair value through profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

(j) Income tax

Income tax expense is the aggregate of the charge to the statement of profit or loss and other comprehensive income in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act Cap 332 as revised.

Deferred tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current liabilities and assets, and they relate to income taxes levied by the

NOTES TO FINANCIAL STATEMENTS CONT.....

same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Income tax expense for the year comprises current and deferred tax. Income tax is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(k) Dividends distribution

During the year the company has proposed dividend declaration of 40% of the Profit after tax.

(l) Adoption of new and revised International Financial Reporting Standard**i. New and revised IFRSs mandatorily effective at the end of the reporting period**

The following new or revised IFRSs were mandatorily effective and adopted by K- Finance Limited as at the end of the reporting period but did not have a material effect on the current or previously reported financial performance or financial position.

Name of standard	Changes made to the standard
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IFRS 16 Leases

Key requirements

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

Impact

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics,

NOTES TO FINANCIAL STATEMENTS CONT.....

Name of standard

Changes made to the standard

such as earnings before interest, taxes, depreciation, and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019.

IAS 19
Benefits

Employee

Discount rate: regional market issue

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

If a plan amendment, curtailment, or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.

In addition, amendments have been included to clarify the effect of a plan amendment, curtailment, or settlement on the requirements regarding the asset ceiling. Effective for annual periods beginning on or after 1 January 2019

Prepayment Features
with Negative
Compensation -
Amendments to IFRS
9**Key requirements**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Transition

The amendments must be applied retrospectively, earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

Impact

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate.

This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, to minimise the credit risks for the parties to the swap, will meet this requirement.

Modification or exchange of a financial liability that does not result in derecognition. In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the

NOTES TO FINANCIAL STATEMENTS CONT.....

Name of standard

Changes made to the standard

gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

Impact

The IASB stated specifically that this clarification relates to the application of IFRS 9. As such, this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. The standard is effective for annual periods beginning on or after 1 January 2019.

ii. Standards and interpretations in issue but not yet effective

At the reporting date, the following new and/or revised accounting standards and interpretations were in issue but not yet effective and therefore have not been applied in these financial statements. K – Finance Limited has not yet assessed the impact of these changes on their financial statements when they become effective:

i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

	2019 TZS	2018 TZS
3. Interest expense		
Interest on bank loans	25,165,992	57,794,599
Interest on internal loans	1,250,000	500,000
	26,415,992	58,294,599
4. Fee and commission income		
Processing fee	30,285,400	60,752,500
Application fee	3,000,000	4,900,000
Visitation Fee	4,010,000	4,170,000
Insurance commission	3,100,000	20,656,055
CRDB agency commission	-	4,236,460
Mobile money commission	-	2,841,938
NMB Wakala Commission	-	264,778
	40,395,400	97,821,731
5 Fees and commission expenses		
Loan processing cost	3,555,000	150,000
Bank charges	1,154,639	2,157,833
	4,709,639	2,307,833

NOTES TO FINANCIAL STATEMENTS CONT.....

	2019	2018
	TZS	TZS
6 Other Income		
Sundry income	-	3,607,351
Loan penalty	-	56,226,613
Gain in disposal of assets	-	10,750,420
	<u>-</u>	<u>70,584,384</u>

During the year the company decided to abandon the charging of loan penalty interest so as to remain competitive in the market.

7. Personnel costs		
Salaries and wages	262,603,592	209,175,000
NSSF-Employer contribution	23,762,693	18,680,500
SDL expenses	13,406,764	9,518,025
Other staff benefits	21,526,978	2,785,714
NHIF-employer contribution	5,238,408	4,350,360
Workman's compensation	2,376,270	1,933,050
	<u>328,914,705</u>	<u>246,442,649</u>
8. Administrative expenses		
Communication expenses	8,630,000	7,958,499
Fuel expenses	8,170,000	17,448,000
Travel and transport	5,661,250	6,885,100
Printing and stationery	3,989,700	5,559,980
Office Utilities	9,595,850	6,940,500
Repair and maintenance	18,843,738	41,756,178
Staff training expenses	16,028,000	5,946,500
Accounting and audit fee	6,000,000	6,000,000
Security guards	7,288,000	1,480,000
Directors meeting expenses	1,459,950	9,361,600
Legal and professional expenses	10,652,500	10,035,000
Office rent	25,836,600	19,360,000
Loan recovery expenses	40,406,613	22,570,450
Software and license expenses	1,657,000	1,455,837
Insurance expenses	2,478,632	11,478,300
Subscription expenses	5,168,200	3,401,800
Market development	34,273,100	35,663,300
Consultancy expenses	22,530,600	25,880,000
Office expenses	4,937,088	2,333,550
Stamp duty expense	425,796	16,179,129
Loss on asset disposal	1,378,700	9,679,713
Audit fee	9,800,000	5,000,000
Travel costs	22,001,471	19,252,430
Business clinic expense	8,497,050	1,095,000
Staff welfare expenses	2,320,600	3,936,000
Directors fees	51,187,500	30,000,000
	<u>338,715,238</u>	<u>326,656,866</u>

NOTES TO FINANCIAL STATEMENTS CONT.....

10. Properties and equipment

Year ended 31 December 2019

	Computer s and Equipment TZS	Motor Vehicles TZS	Furniture and Fittings TZS	Office Equipment TZS	Total TZS
COST					
At start of year	25,427,000	84,807,293	13,877,900	31,995,400	156,107,593
Additions	6,170,000	13,000,000	2,873,000	7,010,522	29,053,522
Disposal	-	(21,841,804)	-	-	(21,841,804)
At end of year	31,597,000	75,965,489	16,750,900	39,005,922	163,319,311
DEPRECIATION					
At start of year	19,469,962	44,417,283	8,521,683	15,396,431	87,805,359
Charge for the year	3,379,231	7,952,771	1,028,652	2,951,186	15,311,840
Disposal	-	(6,463,103)	-	-	(6,463,103)
At end of year	22,849,193	45,906,951	9,550,335	18,347,617	96,654,096
Net book value	8,747,807	30,058,538	7,200,565	20,658,305	66,665,215

Year ended 31 December 2018

	Computers and Equipment TZS	Motor Vehicles TZS	Furniture and Fittings TZS	Office Equipment TZS	Total TZS
Cost					
At start of year	26,617,000	95,347,293	26,589,815	30,193,900	178,748,008
Additions	6,760,000	260,000	2,330,000	6,659,000	16,009,000
Disposal	(7,950,000)	(10,800,000)	(15,041,915)	(4,857,500)	(38,649,415)
At end of year	25,427,000	84,807,293	13,877,900	31,995,400	156,107,593
Depreciation					
At start of year	22,085,049	26,568,291	17,919,948	17,421,504	83,994,792
Charge for the year	441,713	26,399,413	969,530	1,400,034	29,210,689
Disposal	(3,056,800)	(8,550,420)	(10,367,795)	(3,425,107)	(25,400,122)
At end of year	19,469,962	44,417,283	8,521,683	15,396,431	87,805,359
Net assets	5,957,038	40,390,010	5,356,217	16,598,969	68,302,234

NOTES TO FINANCIAL STATEMENTS CONT.....

	2019 TZS	2018 TZS
11. Cash and cash equivalent		
Cash at bank	26,678,635	50,981,436
NMB A/C	12,971,081	15,891,466
Vault cash	198,100	2,331,319
Bank overdraft	(196,931,109)	-
	(157,083,293)	69,204,221
Bank overdraft is payable on demand. Overdraft of 196 million (2018: nil) from CRDB-bank used for purpose of working capital for company lending business. The bank overdraft carries an interest of 14% per annum.		
12. Loans to customers		
Portfolio outstanding	1,014,327,326	896,855,856
Less: Allowance for impairment	(249,386,734)	(198,029,212)
Net loans to customers	764,940,592	698,826,644
13. Receivables and prepayments		
Other receivables	5,966,500	5,000,000
Prepaid expenses	15,558,752	25,574,661
Staff advances	3,285,453	45,600
	24,810,705	30,620,261
14. Financial investment		
CRDB Agency account	10,000,000	10,000,000
NMB wakala	3,000,000	3,000,000
	13,000,000	13,000,000
15. Term loans		
Loan from SELF	-	125,000,000
Loan from directors	-	50,000,000
Loan from CRDB	21,955,022	38,134,841
	21,955,022	213,134,841
In 2018, the company received loans amounted to 50 million Tanzania shillings from a director at an interest rate of 12%. The loan was for three months and 15 days duration and the amount remained unpaid as of 31 December 2018.		
16. Deferred tax liability		
At start of year	27,168,344	-
Credit for the period	(1,326,235)	27,168,344
At end of year	25,842,109	27,168,344



NOTES TO FINANCIAL STATEMENTS CONT.....

	2019 TZS	2018 TZS
17. Trade and other payables		
Audit fee payable	9,800,000	5,000,000
Interest on loans payable	-	958,333
PAYE &SDL payable	12,138,831	3,366,774
NSSF payable	7,492,891	5,882,675
Withholding tax payable	2,995,490	968,500
Other payable	28,208,528	27,281,529
Dividend payable	-	26,377,907
Loan Insurance payable	-	23,509,923
Trace IT payable	17,944,043	1,635,000
General expenses provision	2,999,946	15,297,500
	81,579,729	110,278,141
18. Loan security refundable		
Amana Saving	16,774,101	19,674,101
Maendeleo Saving	68,949	68,949
	16,843,050	19,743,050
19. Other payables		
Other payables	58,470,617	126,113,264
	58,470,617	126,113,264

20. Related party transactions and balances**i. Identification of related parties**

Parties are related if the party can control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business, several company transactions are entered into with related parties i.e., key management personnel and directors.

ii. Transactions with related parties

Transactions entered with related parties during the year, includes payments to directors and key management personnel working with the company. Key management personnel are described as those persons having authority and responsibility for planning, directing, and controlling the activities of the company, directly or indirectly, excluding non-executive directors of the company. They comprise the

Chief Executive Officer and heads of departments who are reporting directly to the Chief Executive Officer.

NOTES TO FINANCIAL STATEMENTS CONT.....

	2019 TZS	2018 TZS
The following transactions were carried out with related parties:		
Key management remuneration	56,800,000	45,000,000
Directors fees	51,187,500	30,000,000
Directors sitting allowance and other meeting expenses	11,459,950	9,361,600
Transport costs	20,001,000	19,252,430
	127,988,500	138,196,150

Transport costs includes travel payments to directors and chief executive officer during the year

iii. Balances with related parties

	2019 TZS	2018 TZS
Balances due to related parties		
Loan from directors (note 15)	-	50,000,000

21. Operating lease expense

The total future minimum lease payment under non-cancellable operating leases are payable as follows:

Lease payments	2019 TZS	2018 TZS
Not later than one year	28,447,850	26,439,200
Over one year	80,305,267	126,960,000
	108,753,117	153,399,200

Lease rental expensed during the year amounts to TZS 25 million (2018: 19 million) as disclosed under note 8 to the financial statements.

22. Employees benefits

K-finance has a defined contribution plan for its employees, under which the employees contribute 10% of their monthly salary and 10% is contributed by the company.

23. Events after the reporting period

The Directors of K-Finance Ltd would like to take note of the covid-19 pandemic that arose because of the Novel corona virus. This disease erupted in China and was announced officially by WHO in December 2019 and declared a pandemic in January 2020. It has resulted in adverse economic effects to the world and Tanzania has not been an exception. Tanzania recorded our first case on March 2020 and from there on K-finance has suffered a significant decline in repayment and overall business activities as the population is advised to stay in their homes as a safety measure against spreading of infections. This has led to closure of schools, colleges, and discouraged gatherings, which has affected the school industry and the entertainment industry. Also, many offices have activated the working from home protocol. As these industry feed into the value chain of many other businesses there has been a huge domino effect in overall business environment.

NOTES TO FINANCIAL STATEMENTS CONT.....

24. Risks management

The company board of directors has overall responsibility to the establishment and oversight of company risks management framework. The risks management policies are established to identify and analyses risks that faced by the company, to set appropriate risk limits and controls and monitor risks adherence to limits. The risks management policies and systems are reviewed regularly to reflect changes in the market condition and the company activities.

The board of directors monitors the company risks management policies and procedures assisted by internal auditor. The internal auditor undertakes both regularly and ad hock reviews of the risks management and control procedure, the result of which reported to the board of directors.

The company has exposure on the following risks

- Credit risks
- Liquidity risks
- Interest rate risks

25.1 Credit risks

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the company's trade and other receivables. The credit risk management process is part of the overall operational risk management framework of the company and is reviewed continually with respect to its accuracy and appropriateness. The company mitigates risk concentration through policy and portfolio diversification regarding loan products and economic sectors.

Management evaluates credit risk relating to customers on an ongoing basis. K-finance has adopted various sound practices set out to specifically address the following areas:

a. Establishing an appropriate credit risk environment

The board of directors shoulders the responsibility for approving and periodically (at least annually) reviewing the business strategy which encompasses credit risk and significant credit risk policies of the institution. The strategy reflects the institution's tolerance for risk and the level of profitability the institution expects to achieve for incurring various credit risks.

b. Operating under a sound credit granting process

K-finance operates within a sound, well-defined credit-granting criteria. The criteria include a clear indication of the K-finance's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

c. Maintaining an appropriate credit administration, measurement, and monitoring process

K-finance uses information systems (CRDB Finance Solution) and analytical tools (credit scoring and assessment) that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system provides adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.



NOTES TO FINANCIAL STATEMENTS CONT.....

d. Ensuring adequate controls over credit risk

The internal audit function acts as an independent, ongoing assessor of the K-finance's credit risk management processes and the results of such reviews are communicated directly to the board of directors and senior management for action.

25.2 Liquidity risks

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Liquidity is further managed by monitoring forecast cash flows to ensure that the company has adequate cash resources to meet its short-term commitments.

The company ensures that it has enough cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the company's board of directors. accompanying operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, directors ensure that the mismatch is controlled in line with allowable risk levels and includes:

Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The organisation maintains an active presence in money markets to enable this to happen.

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cashflow.
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of gap analysis, maturity ladder as well as cashflow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period on 31 December 2019 to the contractual maturity date.

25.3 Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The company take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase because of such changes but may reduce losses if unexpected movements arise. The company's board sets limit on the level of mismatch of interest rate re pricing that may be undertaken, which is monitored daily by the organization.

25. Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.