WATU CREDIT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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COMPANY INFORMATION

Board of directors	Sanjay Gidoomal - Chairman - Appointed on 30 August 2017 Andris Kaneps * Benson Muchomba Marigu Patrick Landi ** Vijay Gidoomal Agris Varpins * * Latvian ** Italian
Registered office	Avenue Plaza 2nd Floor, office No 3 P.O. Box 10556 - 80101 Nyali, Mombasa.
Independent auditor	Baker Tilly Merali's Certified Public Accountants New Rehema House P.O. Box 67486 - 00200 Nairobi, Kenya.
Company secretary	Bowmans Advocates 5th Floor, ICEA Lion Centre Building,West Wing Riverside Park Chiromo Road Nairobi
Advocates	Bowmans Advocates 5th Floor, ICEA Lion Centre Building,West Wing Riverside Park Chiromo Road Nairobi
Principal bankers	Stanbic Bank Kenya Limited Nyali Branch P.O. Box 90131-80100 Mombasa, Kenya. I&M Bank Limited Nyali Cinemax Branch Mombasa P.O. Box 86357 - 80100 Mombasa Kenya Victoria Commercial Bank Limited P.O. Box 4114-00100 Nairobi Kenya

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

Incorporation
The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address of the registered office is set out on page 1.

Principal activities
The principal activity of the company is in respect of micro-credit activities.

Results	**2018**	**2017**
	Kshs	**Kshs**
Profit before income tax	259,003,655	25,813,713
Income tax expense	(75,963,684)	(6,481,739)
Profit for the year transferred to retained earnings	**183,039,971**	**19,331,974**

Dividend
The directors recommend a final dividend of Kshs 36,607.994 which represents a dividend of Kshs 366 for every ordinary share of Kshs 100 for the year ended 31 December 2018. (2017: Nil)

Directors
The directors who served during the year are set out on page 1.

Business review
Watu Credit Limited is a fast growing non-bank credit company that harnesses technology to offer both secured and unsecured lending. Headquartered in Mombasa, Watu Credit aims to become the leading East African provider of a broad set of inclusive financial products, delivered through technology and efficient customer care in a fast, efficient and professional manner. The Company commenced its business operations in July 2015 with the clear vision to be the best in class provider of short and medium-term loan products, tailored to the exact needs of target customers.

In late 2016 the Company launched a new loan product – asset finance thus continuing to target prospective and underserved potential clients in this segment. In 2017 the Company made a business decision to focus on asset finance product – financing motorcycles and three-wheelers and expand geographically across Kenya.
The year 2018 was the strongest year yet for the Company both in terms of growth, expansion and profitability. Apart from a continuous strong presence and business in the Coast region, Malindi and Mombasa as well as the nation's capital Nairobi, the company implemented a regional expansion plan and by the close of the year had branches in Nakuru, Eldoret, Bungoma, Kakamega, Kisii, Kisumu and Kitale.

Statement as to disclosure to the company's auditor
With respect to each director at the time this report was approved:
(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

REPORT OF THE DIRECTORS (CONTINUED)

Terms of appointment of the auditor

Baker Tilly Merali's continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Kshs 825,000 has been charged to profit or loss in the year.

By order of the board

....
Director/Company Secretary

Nairobi

...7 June.......... **2019**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;

ii) selecting and applying appropriate accounting policies; and

iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 7 June 2019 and signed on its behalf by:

Director's name: Agris Vappins **Signature:**

Director's name: BENSON M. MARIBU **Signature:**

REPORT OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF WATU CREDIT LIMITED

Report on the audit of financials statements

Opinion

We have audited the financial statements of Watu Credit Limited, set out on pages 6 to 31 which comprises the statement of financial position as at 31 December 2018 and the statement of profit or loss, statements of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

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 the company in accordance with the International Ethics Standards 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 Kenya and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's 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 other wise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance 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 Companies Act, 2015, 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, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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, we are required to draw attention in our auditor's 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 auditor's 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 entity or business activities within the Company to express and opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory 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 the income statement are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Madhav Bhandari. P/No. 1213.

Baker Tilly Merali's
Certified Public Accountants
P.O. Box 67486 - 00200, Nairobi

7 June 2019

STATEMENT OF PROFIT OR LOSS

	Notes	2018 Kshs	2017 Kshs
Interest income	6	437,141,730	87,015,783
Interest expense	7	(73,222,004)	(25,059,372)
Net interest income		**363,919,726**	**61,956,411**
Fee and commission income	8	364,722,599	97,841,507
Fee and commission expenses	9	(188,624,761)	(31,293,657)
Net fees and commission income		**176,097,838**	**66,547,850**
Other operating income	10	960,048	271,531
Total income		**540,977,612**	**128,775,792**
Impairment of loans and advances to customers	11	(49,785,720)	(15,803,662)
Net operating income		**491,191,892**	**112,972,130**
Employment expenses	12	(73,468,159)	(28,151,386)
Administrative expenses	13	(123,243,872)	(48,777,460)
Establishment expenses	14	(27,851,342)	(7,202,087)
Profit from operations		**266,628,519**	**28,841,197**
Finance cost	15	(7,624,864)	(3,027,484)
Profit before tax		**259,003,655**	**25,813,713**
Income tax expense	17	(75,963,684)	(6,481,739)
Profit for the year attributable to owners of the company		**183,039,971**	**19,331,974**
Earnings per share	18	**1,830**	**193**
Dividend per share	26	**366**	**-**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		2018	2017
ASSETS	**Notes**	**Kshs**	**Kshs**
Cash and cash equivalents	19	39,268,615	13,262,011
Loans and advances to customers	20	967,400,786	242,482,651
Other assets	21	13,468,262	8,276,439
Property and equipment	22	28,082,730	7,498,152
Intangible assets	23	8,275,785	1,023,374
Deferred tax asset	24	16,390,884	3,657,161
TOTAL ASSETS		**1,072,887,062**	**276,199,788**
LIABILITIES AND EQUITY			
Liabilities			
Borrowings due to banks	27	228,194,213	-
Other borrowings	27	450,650,542	217,061,294
Trade and other payables	28	103,166,449	24,381,493
Current tax	17	77,529,915	8,224,774
Provisions	29	5,258,251	1,484,506
Total liabilities		**864,799,370**	**251,152,067**
Equity and reserves			
Issued share capital	25	10,000,000	10,000,000
Retained earnings		161,479,698	15,047,721
Proposed dividend	26	36,607,994	-
Total equity attributable to owners of the company		**208,087,692**	**25,047,721**
TOTAL LIABILITES AND EQUITY		**1,072,887,062**	**276,199,788**

The financial statements on pages 6 to 31 were approved and authorised for issue by the Board of Directors on 7 June .... 2019 and were signed on its behalf by:

Director:......................................

Director:......................................

STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs	Proposed dividend Kshs	Retained earnings Kshs	Total Kshs
Year ended 31 December 2017				
As at 1 January	10,000,000	-	(4,284,253)	5,715,747
Profit for the year	-	-	19,331,974	19,331,974
	10,000,000	-	15,047,721	25,047,721
Transactions with owners recorded in equity				
Proposed dividend	-	-	-	-
Total distributions	-	-	-	-
As at 31 December	**10,000,000**	**-**	**15,047,721**	**25,047,721**
Year ended 31 December 2018				
As at 1 January	10,000,000	-	15,047,721	25,047,721
Profit for the year	-	-	183,039,971	183,039,971
	10,000,000	-	198,087,692	208,087,692
Transactions with owners recorded in equity				
Proposed dividend	-	36,607,994	(36,607,994)	-
Total distributions	-	36,607,994	(36,607,994)	-
As at 31 December	**10,000,000**	**36,607,994**	**161,479,698**	**208,087,692**

STATEMENT OF CASH FLOWS

Operating activities	**Notes**	**2018 Kshs**	**2017 Kshs**
Reconciliation of profit before tax to cash from operations:			
Profit before tax		259.003.655	25.813.713
Adjustments for:			
Depreciation of property and equipment	22	7,517,849	2.167,815
Amortisation of intangible assets	23	3.740.744	442.797
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(724,918.135)	(149,296,400)
Net increase in other assets		(5,191,822)	(4,680,428)
Net increase in trade and other payables		78,784,956	17,094,333
Net increase in provisions		3,773,745	-
Net cash used in operating activities		**(377,289,008)**	**(108,458,170)**
Tax paid	17	(19.392.267)	(2,434,040)
Net cash used in operating activities		**(396,681,275)**	**(110,892,210)**
Investing activities			
Purchase of property and equipment	22	(28.102,427)	(7,003,347)
Purchase of intangible assets	23	(10.993.155)	(1,443,257)
Net cash used in investing activities		**(39,095,582)**	**(8,446,604)**
Financing activities			
Net increase in bank borrowings		228.194,213	-
Net increase in other borrowings		233.589.248	130,878.120
Net cash from financing activities		**461,783,461**	**130,878,120**
Increase in cash and cash equivalents		**26,006,604**	**11,539,306**
Movement in cash and cash equivalents			
Cash and cash equivalent at start of the year		13.262.011	1,722,705
Net increase in cash and cash equivalents		26,006,604	11,539,306
Cash and cash equivalents at end of the year		**39,268,615**	**13,262,011**

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Watu Credit is a limited liability company incorporated and domiciled in Kenya. Its registered office is at Avenue Plaza, 1st Avenue Nyali, Mombasa.

Watu Credit Limited provides micro credit lending activities in various parts of the country. The principal activity of the company is set out on page 2 of these financial statements.

2 BASIS OF PREPARATION

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency.

The financial statements comprise a profit and loss account (income statement), balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

3 SIGNIFICANT ACCOUNTING POLICES

The significant accounting policies adopted in the preparation of these general purpose financial statements are set out below:

(a) New standards, amendments and interpretation

i) Changes in accounitng policies and disclosures

Adoption of new and revised standards

The company has adopted the following new standard and amendments during the year ended 31 December 2018 with the date of initial application by the company being 1 January 2018. The nature and effects of the changes are explained below:

IFRS 9: Financial instruments (2014)

• IFRS 9 Financial Instruments (issued in July 2014) – this standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

√ IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

√ For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

√ For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract: it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.

√ For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

√ The derecognition provisions are carried over almost unchanged from IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(a) New standards, amendments and interpretation (continued)

i) Changes in accounting policies and disclosures (continued)

Transition from IAS 39 to IFRS 9

As permitted, the company has used an exemption not to restate prior year comparative financial statements with respect to classification and measurement(including impairment) of financial instruments on adoption of the requirements of the new standard, therefore comparative period have not been restated. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognized in opening retained earnings and reserves as at 1 January 2018. Accordingly the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The key changes to accounting polices and the impact resulting from the adoption of IFRS 9 are described below:

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Kshs
Loss allowance at 31 December 2017 Under IAS 39	10,235,831
Additional impairment recognised at 1 January 2018 on loans and advances	7,567,869
Loss allowance at 1 January 2018 under IFRS 9	**17,803,700**

Impact on the financial statements

The adoption of IFS 9 is expected to reduce shareholders' equity by approximately Kshs.7.567.869 as at 1 January 2018 as illustrated below:

Retained earnings	**Kshs**
Recognition of expected credit loss under IFRS 9	7,567,869
Impact as at 1 January 2018	7,567,869

Presentation and disclosure

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss. Previously, the company's approach was to include the impairment of loans and advances in administrative expenses. Consequently, the company reclassified impairment losses amounting to Kshs 15.803,662, recognised under IAS 39, from 'administrative expenses' to 'impairment loss on loans and advances in the statement of profit or loss for the year ended 31 December 2017.

Additionally, the company has adopted consequential amendments to IFRS 7 Financial Instruments. which provides "Modified relief from restating comparative periods and associated disclosures in IFRS 7. Ammendements to IFRS 7 apply when an entity first applies the requirements of IFRS 9 and so apply to annual periods beginning on or after 1 January 2015 or such dates when an entity applies IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a) New and revised standards (continued)

ii) New and revised standards and interpretations which have been issued but are not effective

The following revised standards and interpretations have been published but are not yet effective for the year beginning 1 January 2018.

• Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017). The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

• Amendments to IAS 12 - annual I improvements to I FRSs 2015–2017 Cycle, issued in December 2017. The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

• IFRIC 22 titled Foreign Currency Transactions and Advance Consideration (issued in December 2016) – The Interpretation, applicable to annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

• IFRIC 23 Uncertainty over Income Tax Treatment (issued in June 2017) - the Interpretation, applicable to annual periods beginning on or after 1 January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

• Amendments to IAS 1 and IAS 8 titled Definition of Material (issued in October 2018). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Company's financial statements.

b) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

c) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that economic benefits will flow to the company and the revenue will be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

d) Revenue recognition (continued)

Interest income

Interest income from loans and advances to customers is recognised in the profit and loss account using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income relates to interest on loans and advances and is recognised in the period in which it is earned.

Fee and commission income

The company earns fee and commission income from a diverse range of services it offers to its customers. Loans may attract a processing fee, loan extension interest and late payment fees. These fees are recognized as commission income".

e) Property and equipment

Property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation on other assets is calculated on the reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Furniture and fittings	12.5
Computer	30
Telecommunications equipment	20
Equipment	12.5
Motor vehicle	25

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalue assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

f) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss for the year.

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Fiscal Laws of Kenya.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

f) Taxation (continued)

Deferred tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred 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. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

g) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 30%.

h) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

i) Financial instruments-Initial recognition and subsequent measurement

Date of recognition

Loans and advances to customers are recognized under the following circumstances:

- Loans and advances arising out of asset finance arrangements are recognized when all contractual agreements have been fully executed and the customer has obtained custody of the financed asset;
- Other loans and advances to customers resulting from short term loans and business loans are recognized when the funds are transferred to customer account.

Initial measurement and classification

Financial instruments such as loans and advances to customers are measured initially at fair value plus transaction costs.

Loans and advances due from customers include non-derivative financial assets with fixed or predetermined payments that are not quoted in an active market.

After initial measurement, loans and advances due from customers are subsequently measured at amortised cost less allowances for impairment.

Impairment of financial assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is assessed to be impaired. A financial asset or a group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset(an incurred loss event) and that loss event or events has impacted on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or group of borrowers is experiencing significant financial difficulty; the probability that they will enter into bankruptcy or other financial reorganization; default or deliquescence in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with the default.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

i) Financial instruments (continued)
Impairment of financial assets (continued)

The company's impairment methodology for financial assets carried at amortized costs comprises of:

- Specific impairment losses for individually significant of specifically identified exposures.
- Collective impairment of:
  a) Individually not significant exposures

Specific impairment losses for individually significant or specifically identified exposures

For financial assets carried at amortized cost such as loans and advances to customers, the company first assesses whether objective evidence of impairment exists for financial assets that are individually significant.

It is the company policy that for loans and advances to customers, specific assessment is made on a bundle basis for loans and advances that are 180 days past due. If there is an objective evidence that that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying value and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in credit loss expense in the income statement. Interest income continues to be accrued on the reduced carrying amount.

Loans and advances to customers together with associated allowances are written off when there is no realistic prospect of future recovery. If in subsequent year the amount of estimated impairment loss increases or decreases, because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased (but only up to the extent of the carrying amount had the impairment not been recognized) by adjusting the allowance account.If a write-off amount is later recovered, the recovered amount is credited to the loss expenses.

Collective impairment

The company's collective impairment methodology has two components:
- Individually not significant exposure
- Collectively significant exposure

These portfolio comprises mainly loans and advances to customers that are grouped into small homogenous portfolio of individually insignificant loans and advances based on key characteristics that are relevant to the estimation of future cash flows. Generally the impairment trigger within this portfolio is when they reach a pre-defined delinquency level e.g. of the borrower falls 90 days past due with its contractual payments in both principal and accrued interest.

Future cash flows on a group of loans and advances to customers that are collectively evaluated for impairment are estimated on the basis of historical loss experience for financial assets with credit characteristics similar to those in the assessed group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects on the current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with the changes in related observable data from period to period. The methodology and assumptions used in for estimating future cash flows are reviewed regularly to reduce any difference between loss estimate and actual loss.

Under this methodology and based on observable historical data, the company has applied the following collective impairment rates on the loan categories without significant individual exposure.

		Default range (in days)			
Category by portfolio	**Performing**	**0-30**	**30-90**	**90-180**	**Over 180**
Asset finance	2%	5%	20%	50%	100%
Business loans	2%	5%	20%	50%	100%
Short term loans	2%	5%	20%	50%	100%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

j) Other assets

Receivables are carried at original invoiced amount less specific provision for all known doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified when all the reasonable steps to recover them have been taken without success.

A provision for impairment is recognized in the profit and loss account in the year when the recoverability of the amount as per the original terms is considered doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectable are written off against related provisions. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

k) Other liabilities

Payables are recorded at their undiscounted amount of cash and cash equivalents expected to be paid or the fair value of the consideration received in exchange of the obligation. Trade and other payables are stated at their nominal value.

l) Retirement benefits obligations

The company and the employees contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by the local statute and the company's contributions are charged to the profit and loss account in the period to which they relate.

m) Share capital

Ordinary shares are recognised at par value and classified as share capital in equity. Any amounts received in excess of the par value of the shares issued are classified as share premium in equity.

m) Provision for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount of the obligation can be made.

n) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalized as part of the asset. The net borrowing cost capitalized is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks including credit, liquidity and market risk. The company risk limits are regularly assessed to ensure alignment with the company objectives and prevalent market conditions.

The Board of Directors has the overall responsibility for the establishment and oversight of the company's risk management framework. Directors are closely involved in ensuring a variety of techniques are used to assess and manage the said risks.

The company risk management policies are established to identify, analyse and monitor risks faced by the company and aid the board in setting appropriate risk limits and controls to ensure adherence to such limits.

Risk management polices and systems are reviewed regularly by the Board, to reflect changes in the operating market conditions, products and services offered. The Board seeks to develop a disciplined and effective control environment in which all employees understand their roles and obligations to risk management.

a) Credit risk

Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The company mitigates and controls credit risk by setting limits on the amount of risk it is willing to accept for individuals or counterparties and by consistently monitoring exposures in relation to such limits. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The company does not grade the credit quality of financial assets that are neither past due nor impaired.

i) Governance and oversight

The Board of Directors has the overall responsibility for the day to day management of credit risk to the company which include:

- Formulating the company's credit management framework and policies including credit risk assessment procedures, collateral requirements, and policies on the general documentation of various credit risk exposures;
- Periodic review of the company's credit risk management framework;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Developing and maintaining the company's credit risk grading in order to categorize exposures according to various degrees of risk of financial loss faced and to focus management on the identified risk grades. The risk grading system is used in determining where impairment provisions may be required against specific credit risk exposures.

ii) Credit risk management and monitoring

Credit risk management framework enables the company to manage credit risk within the limits of its acceptable risk appetite, develop risk response strategies, and optimize risk taking by anticipating and acting on potential opportunities or threats.

Credit risk exposures are managed through the company's robust credit assessment, structuring and monitoring process. Exposures showing signs of deterioration are placed on early alert list for closer monitoring where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

iii) Credit risk measurement

Credit risk measurement consist of appraising the track record of various customers as appropriate for the prediction of the likely future behaviours of the existing accounts for on-going credit management. The company's credit risk grades reflect the range of parameters developed to predict the default probabilities of each rating class in line with international best practices.

The companies credit risk rating is as follows:

Default rate (Days)	Level type
0-30	Normal risk
30-90	Average risk
90-180	Doubtful risk
Over 180	Loss

iv) Impairment and allowance policies

The company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed as defined in Note 1(i) of the summary of significant accounting policies.

The company's impairment methodology for financial assets carried at amortised costs comprises:

. Specific impairment losses for individually significant or specifically identified exposures;

. Collective impairment of :

- Individually not significant exposures
- Incurred but not yet identified losses(IBNI)

For details see Note 1 (i) of the summary of significant accounting polices.

The table below shows the company's maximum exposure to credit risk by class of financial asset

	Performing Kshs	Past due but not impaired Kshs	Past due and impaired Kshs	Total Kshs
31 December 2018				
Loans and advances to customers				
Asset finance	714,990,957	281,044,367	5,487,838	1,001,523,162
Short term loans	10,145,616	1,562,712	939,887	12,648,215
Business loans	177,427	55,256	665,630	898,313
Loans and advances	725,314,000	282,662,335	7,093,355	1,015,069,690
Other receivables	13,468,262	-	-	13,468,262
Cash at bank	39,268,615	-	-	39,268,615
	778,050,877	**282,662,335**	**7,093,355**	**1,067,806,567**

Other financial assets other than loans and advances to customers, are neither impaired nor past due.

Loans and advances in grades 1 and 2 risks are not individually impaired.Allowance for impairment losses on these loans and advances are assessed collectively.

Loans and advances in grades 3 and 4 include items that are individually impaired. These are loans and advances for which the company determines that it is probable that it will be unable to collect all principal and interest due according to contractual terms of the loan agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

31 December 2017	Performing Kshs	Past due but not impaired Kshs	Past due and impaired Kshs	Total Kshs
Loans and advances to customers				
Asset finance	141,399,394	77,707,428	711,783	219,818,605
Short term loans	20,550,205	4,095,446	1,997,488	26,643.139
Business loans	1,246,777	3,471,219	1,538,742	6,256,738
	163,196,376	85,274,093	4,248,013	252,718,482
Other receivables	8,276,439	-	-	8,276,439
Cash at bank	13,262,011	-	-	13,262,011
	184,734,826	**85,274,093**	**4,248,013**	**274,256,932**

b) Liquidity risk:

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk arises out of the possibility that the company might be unable to meet its payment obligations when they fall due as a result of mismatch in cash flows under both normal and stressful circumstances. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities.

31 December 2018	1-3 month Kshs	Between 3-12 month Kshs	Over 1 period Kshs	Total Kshs
Trade payables	86,326,103	-	-	86,326,103
Other payables and accrued liabilities	16,840,346	-	-	16,840,346
Bank loans	204,362,519	-	23,831,694	228,194,213
Promissory notes	189,754,656	-	-	189,754.656
Other borrowings	260,895.886	-	-	260,895.886
Due to directors	-	-	-	-
	758,179,510	**-**	**23,831,694**	**782,011,204**

31 December 2017	Between 1-3 month Kshs	Between 3-12 month Kshs	Over 1 period Kshs	Total
Trade payables	22,490.055	-	-	22,490.055
Other payables and accrued liabilities	1,125,538	-	-	1,125.538
Promissory notes	-	-	-	-
Other borrowings	-	-	80.000.000	80.000.000
Directors borrowings	765,900	-	-	765,900
	24,381,493	**-**	**80,000,000**	**104,381,493**

The company expects that despite the 10-day notice for the recall of promissory notes, these facilities will less likely to be recalled before the expiry of the terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

Interest rate risk: The company is exposed to cash flow interest risk on its borrowings because of changes in the market interest rates. The company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs.

Currency risk: Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is exposed to currency risk on borrowings particularly from Lendable and AS Mintos Holdings that are denominated in USD and EUR respectively other than its functional currency, primarily the Kenya Shillings (Kshs). The foreign currency denominated loans form the biggest proportion of the company total outstanding borrowings.

While the board continuously monitors fluctuations in functional currency against the foreign currency, there is particular policy and process in place such as hedging strategy to ensure positions are maintained within established limits.

The table below summarises the foreign currency exposure as at 31 December 2018:

	2018 Kshs	2017 Kshs
Assets in foreign currencies	679,595	202,567
Liabilities in foreign currencies	329,902,116	120,265,258
Net foreign currency exposure at 31 December	**329,222,521**	**120,062,691**

31 December 2018	**USD In Kshs**	**EUR In Kshs**	**Total In Kshs**
Assets			
Cash and bank balances	115,642	563,953	679,595
	115,642	563,953	679,595
Liabilites			
Borrowings	152,180,300	177,721,816	329,902,116
	152,180,300	177,721,816	329,902,116
Net statement of financial position exposure	**(152,064,658)**	**(177,157,863)**	**(329,222,521)**

31 December 2017	**USD In Kshs**	**EUR In Kshs**	**Total In Kshs**
Assets			
Cash and bank balances	202,567	-	202,567
	202,567	-	202,567
Liabilites			
Borrowings	120,265,258	-	120,265,258
	120,265,258	-	120,265,258
Net statement of financial position exposure	**(120,062,691)**	-	**(120,062,691)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

iii) Currency risk (continued)

The following table demonstrates the sensitivity to a reasonable possible fluctuation in the below mentioned currencies' exchange rates, with all other variables held constant, on the company's profit before tax (due to changes in the fair value of the monetary assets and liabilities.

31 December 2018	**Currency Carrying Amount**	**10% Depreciation**	**10% Appreciation**
Assets			
USD	115,642	(11,564)	11,564
EUR	563,953	(56,395)	56,395
	679,595	**(67,959)**	**67,959**
Liabilities			
USD	152,180,300	15,218,030	(15,218,030)
EUR	177,721,816	17,772,182	(17,772,182)
	329,902,116	**32,990,212**	**(32,990,212)**
		32,922,253	**(32,922,253)**
31 December 2017			
Assets			
USD	202,567	(20,257)	20,257
	202,567	**(20,257)**	**20,257**
Liabilities			
USD	120,265,258	12,026,526	(12,026,526)
	120,265,258	**12,026,526**	**(12,026,526)**
Net increase/(decrease)		**12,006,269**	**(12,006,269)**

As at 31 December 2018, if the Shilling had weakened /strengthened by 10% against the major trading currencies, with all other variables held constant, the company's net profit would have been Kshs 32,922,253 (2017: Kshs 12,006,269) lower/higher.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 CRITICAL ACCOUNTING ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting polices and reported amounts of assets, liabilites, income and expenses. Actual results may differ from these statements.

Estimates and underlying assumptions are reviewed on an ongoing basis.

a) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments in the financial statements are set out below:

i) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within the industry that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts identified as non performing. All relevant conditions that have bearing on the expected future cash flows are taken into account which include but not limited to future business prospects of the customer and realizable value of collaterals. Subjective judgements are made in this process of cash flow determination both in value and timing and may vary from one person to another. Judgement may also change with time as new information become available.

The company reviews its loans and advances to customer at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgement by directors is required in the estimation of the amount and timing of future cash flows and when determining the level of allowances required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowances.

The company also makes collective impairment measurement for exposures which though not specifically identified as non performing, have an inherent risk of default. Assets with risk characteristics are grouped together for the purpose of determining collective impairment.

ii) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and the residual values are assessed annually and may vary depending on a number of factors. In reassessing product lives factors such as technological innovation, product life cycles and maintenance programmes are taken into account which involve extensive subjective judgment.

iii) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the actual tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

		2018 Kshs	2017 Kshs
6	**Interest income**		
	Interest income on loans and advances to customers	437,141,730	87,015,783
7	**Interest expenses**	73,222,004	25,059,372
8	**Commission income**	364,722,599	97,841,507

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2018 Kshs	2017 Kshs
9	**Fee and commission expenses**		
	Credit risk assessment expense	1,328,176	898,682
	Mpesa charges on loan disbursement	797,630	386,405
	Insurance of client assets	88,915,259	20,872,189
	Collateral registration expenses	25,586,458	1,190,939
	Bank charges	4,045,358	813,635
	Licenses and permits	415,255	415,800
	GPS tracker cost	67,536,625	6,716,007
		188,624,761	**31,293,657**
10	**Other operating income**		
	Write-offs recovery	918,301	271,493
	Interest income-other	41,747	38
		960,048	**271,531**
11	**Net Impairment of loans and advances to customers**		
	Loans and advances written off during the year (Note 20)	12,352,647	9,599,817
	Collective allowance for impairment of loans and advances (Note 20)	29,865,204	6,203,845
	Additional impairment on adoption of IFRS 9 at 1 January 2018 (Note 20)	7,567,869	-
		49,785,720	**15,803,662**
12	**Employment expenses**		
	Salary and wages	64,616,374	26,476,818
	Other staff cost	5,078,040	1,769,947
	Provision for leave pay	3,773,745	(95,379)
		73,468,159	**28,151,386**
13	**Administrative expenses**		
	Audit fees:		
	- Current year	825,000	550,000
	- Prior year under- provision	117,000	-
	Director remuneration	8,940,112	5,482,809
	Donation and sponsorship	25,000	-
	Marketing	4,508,972	578,300
	Office expenses	5,020,426	886,313
	Printing and stationery	2,833,250	812,985
	Professional fees	68,126,841	27,923,714
	Vehicle running expenses	158,427	-
	Software expenses	746,941	484,929
	Subscription and periodicals	300,879	10,635
	Telephone and postage expenses	9,485,358	4,269,669
	Travelling and entertainment	22,155,666	7,778,106
		123,243,872	**48,777,460**
14	**Establishment expenses**		
	Depreciation of property and equipment (Note 22)	7,517,849	2,167,815
	Amortisation of intangible assets (Note 23)	3,740,744	442,797
	Rent	12,608,395	3,088,450
	Repair	1,167,715	604,914
	Security	1,182,368	233,561
	Electricity	1,634,271	664,550
		27,851,342	**7,202,087**
15	**Finance cost**		
	Foreign exchange gain	(5,636,343)	-
	Foreign exchange loss	13,261,207	3,027,484
		7,624,864	**3,027,484**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2018 Kshs	2017 Kshs
16	**Operating profit**		
	The following items have been charged in arriving at operating profit:		
	Auditor's remuneration	825,000	550,000
	Employee benefits expense	73,468,159	28,151,386
	Directors remuneration	8,940,112	5,482,809
	Depreciation of property and equipment	7,517,849	2,167,815
	Amortization of intangible assets	3,740,744	442,797
17	**Taxation**		
	(a) Tax expense		
	Current tax	88,697,408	10,139,174
	Deferred tax (Note 24)	(12,733,724)	(3,657,435)
	Tax charge	**75,963,684**	**6,481,739**

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

	2018 Kshs	2017 Kshs
Profit before tax	259,003,655	25,813,713
Tax calculated at a tax rate of 30%	77,701,097	7,744,114
Tax effect of:		
- Expenses not deductible for tax purposes	(1,737,413)	(1,262,375)
Tax charge	75,963,684	6,481,739
(b) Statement of financial position		
Balance brought forward	8,224,774	519,640
Charge for the period	88,697,408	10,139,174
Tax paid during the period	(19,392,267)	(2,434,040)
Balance carried forward	**77,529,915**	**8,224,774**

18 Earnings per share

Earnings per share is computed on the profit attributable to ordinary shareholders of Kshs 183,039,971 (2017: Kshs 19,331,974) and the number of ordinary shares during the year ended 31 December 2018 of 100,000 (2017: 100,000).

		2018 Kshs	2017 Kshs
	Profit attributable to ordinary shareholders	183,039,971	19,331,974
	Earnings per share	**1,830**	**193**
19	**Cash and cash equivalents**		
	Cash in hand	5,027,896	212,800
	Cash at bank and mpesa balance	34,240,719	13,049,211
		39,268,615	**13,262,011**
20	**Loans and advances to customers**		
	Gross loans and advances to customers	1,015,069,690	252,718,482
	Less provisions for loan impairment	(47,668,904)	(10,235,831)
	Net loans and advances	**967,400,786**	**242,482,651**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses on loans and advances. by class is as follows:

Movement in impairment of loans **Year ended 31 December 2018**	**Asset finance** **Kshs**	**Business loans** **Kshs**	**Short term loans** **Kshs**	**Total** **Kshs**
Impairment at 1.01.2018 under IAS 39	4,153,683	2.485,185	3.596,963	10.235.831
Additional impairment under IFRS 9	7,138,346	180,647	248,876	7,567,869
Adjusted impairment at 1 January 2018	**11,292,029**	**2,665,832**	**3,845,839**	**17,803,700**
Increase/(decrease) in provisions (Note 11)	34.245.743	(1,989,391)	(2,391.148)	29,865,204
Amounts written off (Note 11)	7,704,511	2,145,824	2,502,312	12,352,647
At 31 December 2018	**53,242,283**	**2,822,265**	**3,957,003**	**60,021,551**

Year ended 31 December 2017	**Asset finance** **Kshs**	**Business loans** **Kshs**	**Short term loans** **Kshs**	**Total** **Kshs**
Total impairment at 1 January 2017	**379,298**	**353,813**	**3,298,875**	**4,031,986**
Charge for the year	3,774,385	2,131,372	298,088	6,203,845
Amounts written off	317,154	1,377,345	7,905,318	9,599,817
At 31 December 2017	**4,470,837**	**3,862,530**	**11,502,281**	**19,835,648**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2018 Kshs	2017 Kshs
21	**Other assets**		
	Accrued interest income	7,108,331	2,642,414
	Deposits and prepayments	4,449,696	1,638,642
	Staff receivables	1,898,890	3,995,383
	Related parties (Note 30)	11,345	-
		13,468,262	8,276,439

22 Property and equipment

	Computers	Motor Vehicles	Furniture and Fitting	Office equipment	Total
Year ended 31 December 2017					
Cost	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**
At start of year	1,363,833	194,800	1,241,490	611,933	3,412,056
Reclassified to intangible assets	(32,734)	-	-	-	(32,734)
Additions	2,258,743	491,000	1,895,424	2,358,180	7,003,347
At end of year	3,589,842	685,800	3,136,914	2,970,113	10,382,669
Depreciation					
At start of year	421,340	48,700	179,990	76,492	726,522
Reclassified to intangible assets	(9,820)	-	-	-	(9,820)
Charge for the year	1,099,592	171,450	426,091	470,682	2,167,815
At end of year	1,511,112	220,150	606,081	547,174	2,884,517
Net book value	**2,078,730**	**465,650**	**2,530,833**	**2,422,939**	**7,498,152**
Year ended 31 December 2018					
Cost					
At start of year	3,589,842	685,800	3,136,914	2,970,113	10,382,669
Additions	9,765,000	7,495,335	5,291,147	5,550,945	28,102,427
At end of year	13,354,842	8,181,135	8,428,061	8,521,058	38,485,096
Depreciation					
At start of year	1,511,112	220,150	606,081	547,174	2,884,517
Charge for the year	3,553,119	1,990,246	977,748	996,736	7,517,849
At end of year	5,064,231	2,210,396	1,583,829	1,543,910	10,402,366
Net book value	**8,290,611**	**5,970,739**	**6,844,232**	**6,977,148**	**28,082,730**

Included in property and equipment is a motor vehicle acquired under asset finance arrangement between Watu Credit Limited and I&M Bank Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Intangible assets

	2018	2017
Software cost	**Kshs**	**Kshs**
At 1 January	1,475,991	-
Reclassification from computers	-	32,734
Additions	10,993,155	1,443,257
At 31 December	12,469,146	1,475,991
Amortisation		
At 1 January	452,617	-
Reclassification from computers	-	9,820
Charge for the year	3,740,744	442,797
At 31 December	4,193,361	452,617
Carrying value	**8,275,785**	**1,023,374**

Intangible assets are in respect of computer software purhcase costs.

24 Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2017: 30%) the movement on the deferred tax account is as follows:

At beginning of year	**(3,657,161)**	**274**
Charge to profit and loss (Note 17)	(12,733,723)	(3,657,435)
At end of year	**(16,390,884)**	**(3,657,161)**

Deferred tax asset and liabilities and deferred tax charge in the profit and loss account are attributable to the following items:

Year ended 31 December 2018	**At 1 January 2018**	**Credited to profit / loss**	**At 31 December 2018**
Deferred tax assets	**Kshs**	**Kshs**	**Kshs**
Property plant and equipment	(101,691)	21,680	(80,011)
Intangible assets	(39,369)	(393,358)	(432,727)
Provision for loans impairment	(3,070,749)	(11,229,922)	(14,300,671)
Provision for accrued leave	(445,352)	(1,132,123)	(1,577,475)
Net deferred tax assets	**(3,657,161)**	**(12,733,723)**	**(16,390,884)**

Year ended 31 December 2017	**At 1 January 2017**	**Credited to profit / loss**	**At 31 December 2017**
Deferred tax assets	**Kshs**	**Kshs**	**Kshs**
Property plant and equipment	274	(101,965)	(101,691)
Intangible assets	-	(39,369)	(39,369)
Provision for loans impairment	-	(3,070,749)	(3,070,749)
Provision for accrued leave	-	(445,352)	(445,352)
Net deferred tax liability/(asset)	**274**	**(3,657,435)**	**(3,657,161)**

25 Share Capital

	2018	2017
	Kshs	**Kshs**
Authorized		
100,000 (2017: 100,000) Ordinary shares of Kshs 100/= each	10,000,000	10,000,000
Issued and fully paid		
100,000 (2017: 100,000) Ordinary shares of Kshs 100/= each	10,000,000	10,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 Dividend per share

At a board meeting held on 1 February 2019 a dividend in repect of the year ended 31 December 2018 of Kshs 36,607,994 (2017: Nil) for every ordinary share of Kshs 100 was proposed. Subsequent payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non resident shareholders.

	2018 Kshs	2017 Kshs
Dividend per share	366	-
Proposed final dividend	**36,607,994**	-

27 Borrowings

Borrowings are made up of:

	2018	2017
a) Bank borrowings		
I&M Bank asset finance loan	868,094	-
I&M Bank term loan	90,802,375	-
Victoria Commercial Bank term loan	79,735,567	-
Victoria Commercial Bank term loan	46,714,790	-
Victoria Commercial Bank term loan	10,073,387	-
	228,194,213	-
b) Other borrowings		
Promissory notes-Other	174,282,156	102,728,064
Promissory notes-Related party (Note 30)	15,472,500	40,880,000
Lendable	83,174,070	73,453,230
AS Mintos Marketplace	177,721,816	-
	450,650,542	217,061,294
Total borrowings	**678,844,755**	**217,061,294**
Split as follows:		
Non-current		
Bank borrowings	23,831,694	-
Promissory notes	-	80,000,000
	23,831,694	80,000,000
Current		
Bank loan	204,362,519	-
Promissory note	189,754,656	63,608,064
Lendable	83,174,070	73,453,230
Mintos	177,721,816	-
	655,013,061	137,061,294
	678,844,755	**217,061,294**

All Bank borrowings mature between June 2019 and June 2020 and at a weighted average effective interest rate of 13.7%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Borrowings (continued)

Specific terms and collaterals on the various loans are as listed below:

i) I&M Asset finance loan

The loan is secured by joint and several personal guarantees and indemnities for an amount of Kshs 975,000 each by Andris Kaneps and Benson Muchomba with the vehicle jointly registered in the name of the I&M Bank and Watu Credit Limited.

ii) I&M Bank Term Loan

The loan is secured by Specific Debenture for Kshs 125 million over selected receivables to I&M bank.

iii) Victoria Commercial Bank Loan 1

The loan is secured by Specific Debenture for Kshs 100 million over selected receivables to Victoria Commercial Bank Limited.

iv) Victoria Commercial Bank Term Loan 2

The loan is secured by "further Specific Debenture" of Kshs 50 million over selected receivables to Victoria Commercial Bank Limited and a pledge of Kshs 10 million lien deposit in the name of Watu Credit.

i) Promissory notes

The above loans relate to loans received from the company shareholders and third parties at an average weighted interest rate of 18% per annum for Kenya shilling (Kshs) borrowings and at rate of 16% per annum for US Dollar borrowings. The loans have been issued for less than one year but can be rolled over for 3 months unless the lender gives a repayment notice of at least 10 days.

All the above loans are secured by promissory notes of equivalent amount.

ii) Lendable

Watu Credit Limited entered into a receivable sale and purchase agreement with LEAF SPC (Purchaser). The agreement constitutes a sale of accounts receivables of Kshs 246 million. The vendor assigned and transferred accounts receivables and in consideration, the Purchaser transferred to the Vendor a total of Kshs 132.9 million in three tranches.

The purchaser has priority right over accounts receivable cash flows until the purchasers initial purchase price has been earned back from such cash flows with interest charged at rate of 15% per annum on reducing balance.

iii) AS Mintos Holdings

Watu Credit entered into a receivable sale and purchase agreement with AS Mintos, a global online marketplace, registered in the republic of Latvia, for loans on account of certain specified receivables. In 2018, a total of Kshs 2.4 million was disbursed . The loans attract interest at the rate of 15.5% per annum on reducing balance. The outstanding balance of Kshs 177 million is secured against selected receivables of Watu Credit Limited.

	2018	**2017**
	Kshs	**Kshs**
28 Trade and other payables		
Trade payables	86,326,103	22,490,055
Customer deposits and prepayments	7,513,645	575,538
Other payables	9,326,701	550,000
Related parties	-	765,900
	103,166,449	**24,381,493**

Customer deposits relate to deposits for loans that had not been processed as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2018 Kshs	2017 Kshs
29	**Provisions**		
	Staff leave		
	At start of the year	1,484,506	1,579,885
	Increase in leave liability for the year	3,773,745	(95,379)
	At end of year	5,258,251	1,484,506

30 Related party transactions

The company is an associate of Car & General Trading Limited.

Transactions with related parties

The company enters into transactions, agreements and arrangements involving its directors and shareholders in the ordinary course of business under the same commercial and market terms, interest and commissions as would apply to non related parties.

The following table provides summary of total transaction that have been entered into with key management personnel and other related parties:

		2018 Kshs	2017 Kshs
a)	**Promissory notes**		
	Shareholders	115,000,000	-
		115,000,000	-

Shareholder promisory notes bear the same financial terms as non-related party promisory notes

b) Outstanding balances arising out of the transactions with key management personnel are as follows:

	2018 Kshs	2017 Kshs
Amounts due from related parties		
Director (Note 21)	11,345	-
Amount due to directors and shareholders		
Car & General Trading (K) Limited (Note 27)	15,472,500	40,880,000

c) Directors' remuneration

	2018 Kshs	2017 Kshs
Fees for service as non-executive directors	1,000,000	-
Executive directors' salary and other short-term benefits	7,940,112	5,482,809
	8,940,112	5,482,809

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation and prior year adjustments in the current year.

32 Incorporation

The company is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

33 Currency

The financial statements are presented in Kenya shillings (Kshs) and are rounded off to the nearest one Kshs.

Watu Credit Limited
Income Tax Computation
Year of income: 2018

PIN P051543321U

			2018
1	**Tax computation**		**Kshs**
	Profit as per the financial statements		259,003,655
	Add back:		
	Telephone expense	1,833,492	
	Provision for accrued leave	3,773,745	
	Foreign exchange gain	5,636,343	
	Provision for loans impairment	29,865,204	
	Additional impairment at 1 January 2018 on adoption of IFRS 9	7,567,869	
	Amortisation of intangible assets	3,740,744	
	Depreciation of property, plant and equipment	7,517,849	59,935,246
			318,938,901
	Less:		
	Foreign exchange loss	(13,261,207)	
	Software allowance	(2,429,552)	
	Wear and tear allowance	(7,590,115)	(23,280,874)
	Adjusted taxable profit		295,658,027
	Losses brought forward		
	Taxable profit for the year		295,658,027
	Corporation Tax @ 30%		88,697,408
2	**Tax account**		
	Tax recoverable		
	Balance brought forward		8,224,774
	Tax paid		(19,392,267)
	Advance tax		-
	Witholding taxes		
	Current tax		88,697,408
	Balance carried forward		77,529,915

3 Wear and tear schedule

	Class II 30% Kshs	Class III 25% Kshs	Class IV 12.5% Kshs	Total Kshs
W.D.V at 1 January 2018	2,240,865	477,826	5,118,429	7,837,120
Additions	9,765,000	7,495,335	10,842,092	28,102,427
	12,005,865	7,973,161	15,960,521	35,939,547
Allowance	(3,601,760)	(1,993,290)	(1,995,065)	(7,590,115)
W.D.V at 31 December 2018	8,404,105	5,979,871	13,965,456	28,349,432

4 Software allowance

	2018 Kshs
W.D.V at 1 January 2018	1,154,605
Additions	10,993,155
	12,147,760
Allowance @ 20%	(2,429,552)
W.D.V at 31 December 2018	9,718,208