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**ANNUAL REPORT  
2020**



# Annual Report

2020

**Kaebauk Investimentu no Finansas, S.A.**

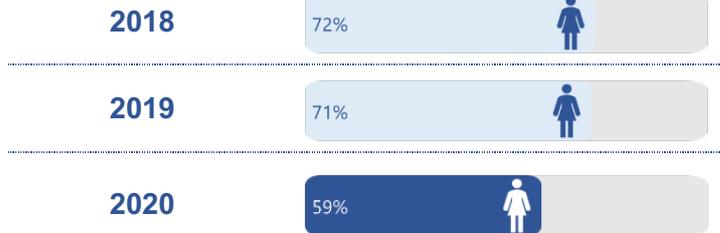
# KAEBAUK AT A GLANCE

## Financial & Social Performance

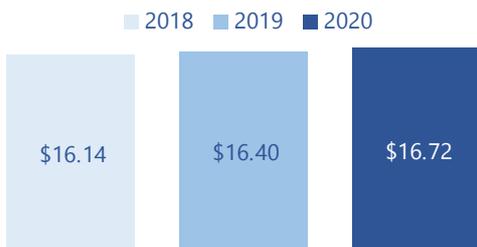
### Number of Customers



### % Customer/Women



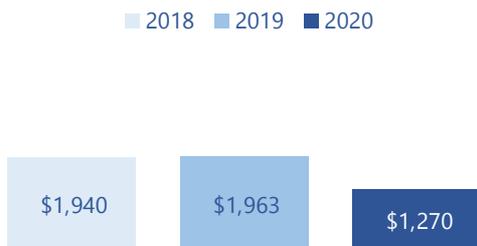
### Portfolio Size (\$ Million)



### % Non-Performing Loan



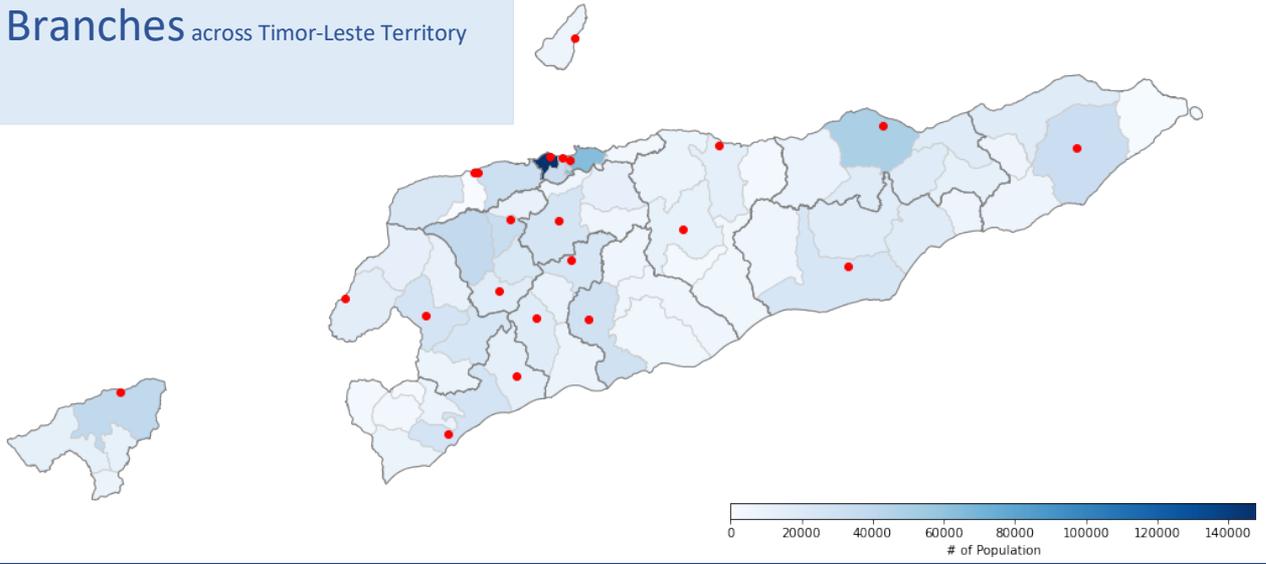
### Average Loan Size



### % Customer/Rural Sector



## 22 Branches across Timor-Leste Territory



## Overview

Kaebauk Investimentu no Finansas, S.A. (Kaebauk) is an Other Deposit Taking Institution (ODTI). In 2016, Kaebauk officially transformed to an ODTI, from Tuba Rai Metin, a non-license microfinance institution, which has been providing loan since 2001.

Kaebauk is a joint stock institution owned by the two local entities: TRM and Association of TURAME, as well as two international institutional investors; IFC and BOPA. Kaebauk scope of services is to provide loan and deposit products to Timorese nationals. By the end of 2020, total customers being served by Kaebauk are more than 13,000 customers in all municipalities in Timor-Leste.

Kaebauk is one of the largest private sectors employers in Timor-Leste with total staff more than 300

*Kaebauk mission is to provide microfinance and allied services for a large number of the poor entrepreneurs in a sustainable, transparent and regulated manner to improve the quality of lives of families and to empower women. We aim to be Timor-Leste's most reliable financial institution.*

Most of our services are provided in rural areas as we focus our financial services to the unbanked low-income entrepreneurs. By doing so we believe that we will be able to contribute to sustainable economic growth in the country.

Kaebauk believes in the philosophy of financial inclusion. To extend financial services to the unbanked customers to support the alleviation of poverty and allow our customers to have the opportunity to build a better life.

## **About this Report**

As an institution in the Democratic Republic of Timor-Leste that is licensed to accept deposits, we are required to report annually on our financial activities and operations.

This document fulfils the mandatory regulatory reporting requirements. All issues deemed to be of material importance have been reported in this document.

Material issues include corporate governance, management, business, liquidity and capital adequacy ratio and geographic outreach.

Because our mission involves expanding access to financial services by the citizens of Timor-Leste, the priority for all key stakeholder groups is social impact associated with our services.

It is not enough for us just to be financially solvent and remain in business, our success is based on the extent to which the citizens and society of Timor-Leste benefits from our products and services. This report therefore includes information about social and financial performance.

This is our annual report for FY 2020, and it reflects the development in this particular year. Wherever possible historical information is included for comparison.

All figures reported are in US Dollars, which is the currency in use throughout Timor-Leste.

## **Vision & Mission Statements**

### **Vision**

Kaebauk will be the most trusted and accessible  
Financial Institution in Timor-Leste

### **Mission**

To provide microfinance and allied services to a large number of the poor entrepreneur and underserved communities in a sustainable, transparent and regulated manner to improve the quality of lives of families and empower women.

## List of Acronym

AC	-	Audit Committee
ANZ	-	Australian New Zealand Banking Group
AML/CTF	-	Anti Money Laundering and Counter Financing of Terrorism
BCTL	-	Banco Central de Timor-Leste
BOPA	-	Base of Pyramid Asia
CBS	-	Core Banking System
FY	-	Financial Year
GM	-	General Manager
HRC	-	Human Resource Committee
IFC	-	International Finance Corporation
RMC	-	Risk Management Committee
SME	-	Small and Medium Enterprises
TURAME	-	Tuir Rasik Mehi
TRM	-	Tuba Rai Metin

## Company Values

We aim to maximize our company performance and abide by the underlying objective that will serve our customers in a professional way.

**Customer Leadership:** customers are our reason for being on the job and our first priority, therefore we want to ensure they are fully satisfied with our services.

**Quality:** we will continue to serve our customers in an efficient, transparent, and dignified way to keep them delighted.

**Diversity and Neutrality:** we serve poor people based on need, not ethnicity, religion, or political affiliation.

**Recognition:** we believe that we should acknowledge successes and reward those who achieved them.

**Balance between service and sustainability:** we are to serve our customer in a sustainable and a transparent manner.

**Compassion:** We believe in supporting those in need of help and tolerance in times of conflict or emergencies.

**Responsibility and Accountability:** we believe our future is guaranteed by our responsibility and accountability towards our stakeholders.

**Knowledge and sharing:** we believe in the continual improvement by learning and sharing knowledge.

**Discipline:** we believe in respecting the rules of the company, the country and to be a role model for our customers and make our program successful.

**Integrity, fairness, and honesty in all business dealings.**

**Trust is the cornerstone of our business and it will never be compromised.**



## **Letter from Chairman of Board of Director**

Dear Honored Readers,

The year 2020 has been filled with uncertainty, COVID-19 has and will continue to affect us one way or the other, the work ahead for Kaebauk Board and Management will be intense, but through our vision to be the most trusted and accessible financial institution in Timor-Leste and our mission to improve and provide microfinance to the poor will

remain to be our foresight that will push the institution forward. It is not an easy time for Kaebauk customers as the State of Emergency and the virus itself is impacting customers' business operations, but Board will continue to have the confidence in Kaebauk management to lead this institution through this difficult time and the Board will provide the necessary support for management to emerge even stronger throughout 2021.

During 2020 Kaebauk had to stop the implementation of a Core banking System (CBS), which was a major disappointment for the institution. Nonetheless, based on the experience gained a new CBS project Team has been set-up and the Board is confident that a new Core Banking System will be in place by 2024. To strengthen the Corporate Governance of Kaebauk, the board is also very excited that Mr. Mohammed Shamim Shaban Khan joined Kaebauk Board in May 2020 as our newest Independent Board Director. Mr. Khan has important experience in overseeing implementation of CBS in Financial Institutions during his time in key management roles for ANZ Bank in Fiji, Timor-Leste and PNG from 2006-2013. Mr. Khan will be overseeing the CBS project first-hand, as one of Kaebauk's CBS Committee members.

In relation to business, we started the financial year for 2020 confidently, to achieve business growth by aiming to increase disbursements amounts, increase the number of clients, but due to impacts of COVID-19, political instability, the state of emergency,

the financial performance for Kaebauk was not achieved as intended. In the current pandemic crisis, where situation is unlikely to change anytime soon, Board have ensured that Management have prepared all possible contingencies and to learn from past mistake, to achieve growth throughout the Financial year in 2021. At the same time, the Board is also vigilant and have worked closely with management to be more efficient with the operation expenses for 2021, while remaining to be considerate with the labor force and career development of the staff though good support and security. In addition, a plan to implement the Salary scale is in place for 2021, to implement a fair and transparent salary scale adjustment for all employees.

Finally, given the difficult situation that the people of Timor-Leste are facing, Kaebauk business will spare no effort in working towards supporting our clients and achieving businesses growth. Board shall continue to work closely with Management and monitor the progress accordingly to ensure management is getting the support needed to get through this challenging period and emerge stronger.

Thank you & Stay Safe!

Sincerely

**Hernani Viterbo Soares**

Chairman of KIF Board

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## **I. Corporate Governance**

Our Board of Directors and Management team are strongly committed to good corporate governance through having effective structures, policies, and processes to manage the company and ensure appropriate controls.

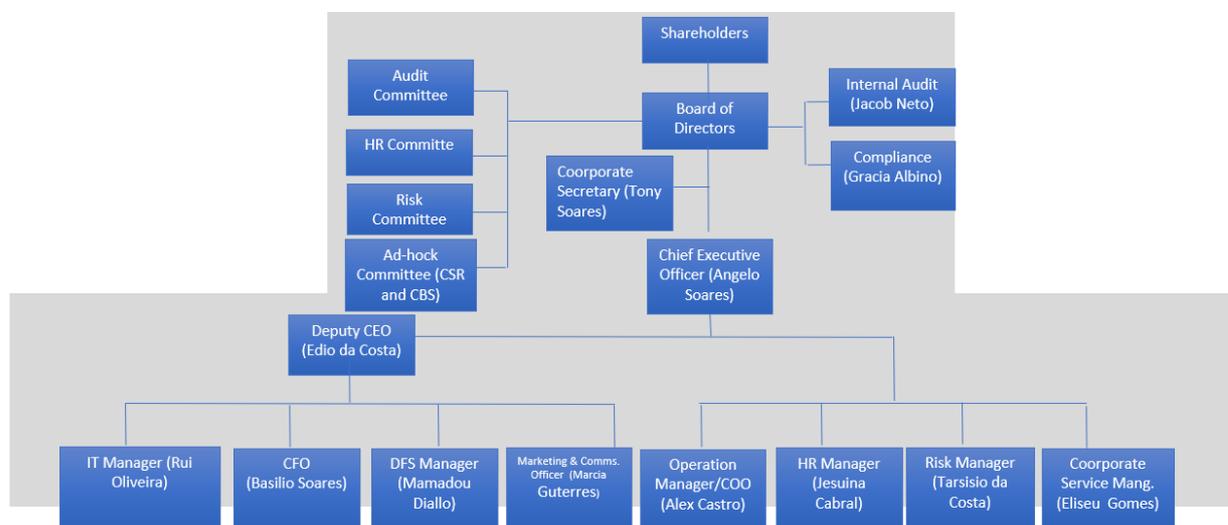
Our Corporate Governance framework fosters accountability, fairness, transparency, and responsibility and this is documented in our Corporate Governance Manual as well as Code of Conduct.

In FY 2020, an evaluation of the Corporate Governance in Kaebauk was carried out with the assistance from IFC. The specific focus was to define in detail the roles and responsibilities of the Management and the separation of authority between Management and the Board of Directors.

Key accomplishment of the journey in this year is the appointment of new independent Board of Directors who has important and relevant experience in the banking sector, implementation of the succession planning and appointment and changing in some of the Management key positions, fair and transparent application of the incentive system and salary scale and evaluation of the corporate governance.

# Kaebauk Corporate Governance Structure

## A. Kaebauk Corporate Governance Structure



## B. Company Ownership

On 31<sup>st</sup> December 2020, we had 200,000 shares outstanding, and each share has book value of USD\$ 27.00. The breakdown of the company ownership can be seen in the table below;

Shareholder	%-holding
TRM	<b>58.50%</b>
BOPA	<b>16.50%</b>
IFC	<b>12.50%</b>
Turame	<b>12.50%</b>
	<b>100.00%</b>

### TRM

TRM as a Foundation in Timor-Leste, which is the main and largest shareholder in KIF. The objectives of TRM are raise incomes and quality of lives of poor women and their households by providing them reliable access to multiple livelihood services.

TRM will not get direct involvement of providing financial services as long as possible but will help in creating remote access through strategic partners.

Currently, the activity that TRM is running is conducting financial literacy training in three districts in the eastern part of Timor-Leste, namely Viqueque, Baucau and Lautem.

## **BOPA**

BOPA is microfinance investment holding company registered in Singapore. BOPA has investments in six Asian microfinance institutions including Kaebauk.

BOPA actively participates in the development of Kaebauk, particularly involvement in the corporate governance and has a seat in the Board.

## **IFC**

IFC is the private sector arm of the World Bank Group. Based in Washington, DC. IFC has been actively engaging with Kaebauk to develop its core banking system and the preparation of Kaebauk to become a microfinance Bank in the coming years.

## **TURAME**

TURAME shares are held on behalf of our employees who were eligible to benefit from the stock options at the time of our inception.

Most of the approximately 70 employees who were awarded share options are long term employees who helped sustain the institution through the period of Timor-Leste civil unrest and subsequent rebuilding.

The record of shares held on behalf of employees is kept by our Corporate Service Manager.

## **C. Annual Shareholder Meeting**

Our annual shareholder meeting was held on 27<sup>th</sup> February 2020.

This meeting was attended by all shareholders representatives. The discussion included other strategic decision for the business and the approval of the new Independent Board of Director Mr. Mohammed Shamim S. Khan.

### **Board of Directors**

Our Board of Directors are composed of five members, each elected by shareholders for a three-year term.

Board members may be re-elected by shareholders to subsequent terms if they continue to be able to perform relevant duties and maintain sufficient objectivity.

The Board is composed of representatives of the majority and minority shareholders, with one independent director. No members of senior management may serve as Board members.

The Board meets minimum of four times annually. The Board oversees the company and guides management with the objective of creating long term shareholder value and take into account the interests of all key stakeholders.

The Board is responsible for defining and upholding our social mission, purpose, balancing social and financial priorities to ensure that we create value in a sustainable manner.

To ensure that we are successful in delivering social and financial value over the long term, the Board oversees:

- Strategy setting and performance against strategic objective.
- Risk management
- Financial reporting and internal controls
- The human resource framework
- Board nominations
- Succession Planning
- The performance and remuneration of senior management
- The Governance and compliance framework

The main focus areas for the Board of Directors during 2021 is to identify the new Project Manager and establish new project team to search for new vendors of Core Baking System and the completion project of the new Head Office building.

## **D. Board of Directors Profile**



**Hernani Viterbo Soares**  
**Chairman of Board of Directors**



**Aida Pinto Baptista**  
**Independent Board of Director**



**Christian Andersen**  
**Board of Director**



**Alvaro Menezes**  
**Board of Director**

## New Joining of Board of Director in 2020



**Mohammed Shamim Shaban Khan**  
Independent Board of Director

Mr. Khan is the newest Independent Board Member for Kaebauk. Mr. Khan currently serves as the Group Financial Controller & Business Development for JYL International in Timor-Leste. Specifically, Mr. Khan works as a Support Director and GM Operations on business strategy development and implementation of initiatives. Mr. Khan has over a decade of experience in the banking sector, being the Head of Operations for ANZ in Fiji from 2012-2013, Chief Operating Officer, ANZ Timor-Leste from 2006- 2009 & Manager Direct Banking for ANZ, Papua New Guinea from 2009-2011 etc. For that, Mr. Khan is an expert in Leading & Managing operations team on property, leadership of electronic and business and great experience in implementing and coordinating the Core Banking system, making him great fit to joining Kaebauk Board.

## E. Board of Directors Relevant Skills

To provide appropriate stewardship, the Board possesses a broad range of expertise relevant to our operations.

The table below provides an analysis of the relevant skill set of the current Board:

<b>Board of Director</b>	<b>Relevant Skills</b>
Hernani Viterbo Soares	Financial Services, Private Sector Development, Strategy and Resources Allocation and Risk Management.

Aida Pinto Baptista	Private Sector Development and Public Policy and Regulation.
Christian Andersen	Financial Services, Public Policy and Regulation, Financial Accounting and Reporting, Corporate Finance. Strategy and resource allocation, Leadership and Talent Development.
Alvaro Menezes	Financial Accounting and Reporting, Corporate Finance, Risk Management and Leadership and Talent Development.
Mohammed Shamim Shaban Khan	Financial Services, Financial Accounting and Reporting, Corporate Finance, Strategy and Resources Allocation and Risk Management.

## **F. Statement of Meeting Attendance by Board of Directors**

One measures of the Board's effectiveness during 2020 is involvement and participation and this is seen by attendance.

The table below indicates the number of the meeting conducted during FY 2020.

### **Statement Showing attendance of Board Meetings.**

<b>Name of Directors</b>	<b>Meetings Due</b>	<b>Meetings Attended</b>
Hernani Viterbo Soares	4	4
Aida Pinto Baptista	4	4
Christian Andersen	4	4
Alvaro Menezes	4	4
Mohammed Shamim Shaban Khan	4	3

### Statement of Showing Attendance of Audit Committee Meetings

Name of Directors	Meetings Due	Meeting Attended
Christian Andersen	4	4
Aida Pinto Baptista	4	4

### Statement Showing Attendance of Risk Committee Meetings

Name of Directors	Meetings Due	Meeting Attended
Hernani Viterbo Soares	4	4
Alvaro Menezes	4	4
Mohammed Shamim Shaban Khan	4	3

### Statement Showing Attendance of HR Committee Meetings

Name of Directors	Meeting Due	Meeting Attended
Hernani Viterbo Soares	4	4
Alvaro Menezes	4	4
Mohammed Shamim Shaban Khan	4	2

### Board of Director Remuneration

	Board Responsibilities	Honorarium per Quarter (USD)
1	Chairperson of the Board	\$600.00
2	Chairperson of Audit, Risk and HR Committees and any other regular Board Committee that is formed in the future.	\$450.00
3	Member of Audit, Risk and HR Committees and any other regular	\$450.00

	Board Committee that is formed in the future	
4	Board members	\$350.00

Board sitting fees should include the participation through electronic mode:

\$200.00 per extra Board meeting and Committee meeting (excluding vert short meeting and excluding lunch or dinner meeting with visitors or short interactive meetings).

In addition to this incentive, Board members are also reimbursed for any expenses relating to meeting attendance.

## **G. Board Committee**

At present, the Board has committees to oversee audit, risk, and HR management.

### **Audit Committee (AC)**

The committee is chaired by Mr. Andersen. Another committee member is Mrs. Baptista.

The primary focus of the Audit Committee during 2020 is ensuring the integrity of all the financial reports and reinforce the internal control system.

**Viqueque Branch**



**Viqueque Branch Staff**



**Viqueque SME Client (Soeing Business)**



**Viqueque SME Client (PAR)**



**Viqueque Agri-Client**



**Viqueque SME Client (Interview)**



**Manatuto Branch**





### **Risk Management Committee (RMC)**

The committee is chaired by Mr. Soares. The other committee members are Mr. Menezes and Mr. Khan.

The primary focus of the Risk Committee during 2020 is to look at financial risk in the operations and monitoring the internal control management.

### **Human Resource Committee (HRC)**

The Committee is chaired by Mr. Menezes. The other committee members are Mr. Soares and Mr. Khan.

The primary focus of the Human Resource Committee during 2020 is to look at the succession planning, incentive schemes and the salary scale.

## **H. Board of Director Visit to Branch**

On the 12<sup>th</sup> of October 2020 until the 13<sup>th</sup> of October 2020, the Deputy CEO & the Company Secretary invited Board of Director Mr. Alvaro Menezes to a field visit across 3 Branches, which include Manatuto, Baucau & Viqueque. The first objective of the trip is to directly present the day-to-day business operations to a Board of Director and to directly discuss with staff branches regarding the difficulties they are encountering, the support and resources needed and simply for the branch staff to provide any suggestions or requests. These suggestions were later discussed in both Management & Board level to provide the support needed. The Second objective was to visit Agri-customers and SME customers who are doing very well in relation to meeting repayment schedules and improving their businesses. Customers who are not doing very well and is in non-performing loan category. Both the Deputy CEO and

Board of Director Mr. Menezes sought customers explanations as to why the customers' business failed and provided suggestions and encouragement to customers on how to improve. As well as meeting successful customers and understanding their history from small businesses loans to big-loan SME customers and to ultimately share their extraordinary stories with Kaebauk high level counterparts and other stakeholders. Allowing us to truly present the importance of Kaebauk in Timor-Leste, its success and to still highlight the work still ahead.

## II. SENIOR MANAGEMENT TEAM



## A. Senior Management Team Profiles



**Angelo B. C. Soares**  
CEO



**Edio da Costa**  
Deputy CEO



**Alexandre de Castro**  
Operation Manager



**Basilio Ribeiro de C. Soares**  
CFO



**Natalia Jaquelina do R. Ribeiro**  
Finance Manager



**Jesuina Soares Cabral**  
Human Resource Manager



**Eliseu Oliveira Gomes**  
Corporate Service Manager



**Rui Antonio Oliveira**  
IT Manager



**Jacob Domingos Neto**  
Internal Audit Manager



**Armindo Barros**  
Agri Loan Manager



**Antonio Carlos Hanjam Soares**  
Company Secretary

## **B. Senior Management Promotions in 2020**



**Tarsisio da Costa**  
Risk Manager



**Alexandrinho Moniz**  
Training Manager



**Gracia Eugenia Albino**  
Compliance & AML/CTF Manager

The Senior Management promotions are part of the succession planning to ensure key positions are filled immediately when required. In 2020, Kaebauk promoted positions such as Risk Manager, Training Manager and Compliance & AML/CTF Manager.

Training Manager, Mr. Tarsisio da Costa was promoted to Risk Manager, a position which was previously held by an expatriate staff. This promotion was made taking into consideration Mr. Tarsisio's substantial experience in operations and its associated risks as well as his thorough understanding of the entire business of Kaebauk.

The Training Manager position was then filled by its prepared successor Mr. Alex Moniz who has been well prepared for this transition by getting trained in the skills required for this new responsibility. Mr. Moniz comes from a position as Area Manager and therefore a good fit for this position.

In order to strengthen compliance, during 2020 Kaebauk created a new position as Compliance and AML/CFT Manager. Ms. Gracia Albino, who has been compliance officer since 2016, was promoted into this position. Like the Risk Manager, this department is also a second line of defense for Kaebauk as it focuses specifically on the compliance of Kaebauk business to the external regulations, including laws for prevention of the money laundering and financing of terrorism and compliance with the internal policies and regulations. The objective of reinforcing compliance function is to prepare Kaebauk to become a specialized micro finance bank in future, by building a robust compliance foundation that lives up to international standards in financial sector.

### **III. Our Business**

It has been another challenging year of operation for Kaebauk in 2020. The continuation of political instability in prior years through the absence of the Government budget and the emergence of the global pandemic COVID-19 have both reinforce the stagnancy of Kaebauk business.

Due to the abovementioned challenges, Kaebauk cannot achieve its ambitious business target as per intended. We must slow down our disbursement especially during the affected period of the year in March and April to anticipate the possibility of many of the affected customers who will fall into non-performing loan. During this difficult time, many of our customers have suffered during these periods where they cannot do their business as normal. For this reason, we also cannot grow our loan portfolio, but we also introduced a holiday repayment program to allow our customers to recover financially during those difficult time.

Despite all these difficulties Kaebauk remain strongly committed to manage the current challenges and come strengthened out of the crisis. Kaebauk continue to focus on increasing activities in rural areas. Meanwhile, management continue to build a strategic business foundation that by 2024, it will be able to transform into a microfinancebank with specific focus on the rural entrepreneur, who continue to suffer from being excluded from the formal financial institution in the country.

## A. Loan Repayment Holiday Program



Kaebauk implemented repayment holiday program for three months from June 2020 and covering the months of June, July, and August. The objective was to help customers to have time to recover financially from the state emergency implemented by the Government in response to Covid19.

The state emergency limited the public movement and business which was not providing basic needs were not allowed to operate. At the same time, financial institutions were instructed to operate 5 hours a day only with stringent compliance to the health protocols. As a prevention method, Kaebauk also halted new loan disbursement during the state of emergency to prevent the possible significant increment of the non-performing loans in the following months.

Taking into consideration the adverse impact economically to the country especially to Kaebauk's customers, KIF decided to help the customers to ease their financial burden by introducing this repayment holiday program. This program cannot be applied to all customers, given that consumer loan such as education and housing loan are accessed by public servants who continued to receive their salaries on monthly basis during this state of emergency, so this program is only for customers which is relying on income from a business that has been affected by Covid19.

The repayment holiday program is conditioned to the customers who experienced repayment difficulties in March and April and to those performed excellence repayment history. To have their loan repayment paused for the three months, customers must pay \$5 for the respective months. The total customers who accessed to this repayment holiday program was 1060 customers with total outstanding of \$1,223,369

The outcome of this program was successful and many customers who participated in this holiday repayment program expressed their satisfaction. For Kaebauk, this is a first-time experience and Kaebauk will consider similar measures in the future if the same situation reoccurs. Kaebauk also believes that this program would be able to foster a positive relationship with customers and demonstrate our care of customers financial situation especially during such difficult time.

## **B. Kaebauk Business Customers' Stories During Pandemic**



**Mr. Costantino de Araujo and his spouse Mrs. Luciana Colo in their Spare parts shop**

Mr. Araujo is a car mechanic and he runs a workshop and a spare part shop. He is Kaebauk's SME plus customer accessing loan of \$15,000. Mr. Araujo is looking after the workshop and his spouse Mrs. Colo is looking after the spare parts shop. According to Mr. Araujo all Spare parts are obtained from Atambua and Kupang

Indonesia. During the normal time, Mr. Araujo and his wife travels back and forth to Kupang to buy all the spare parts because, according to Mr. Araujo, it is cheaper to buy directly from Indonesia. However, during the lockdown both of them were unable to travel and therefore they could not get the necessary parts for their business and had to turn they customers away. Even though some of the spare parts were out of stock, Mr. Araujo continued to open the workshop and attend his customers. Being the biggest workshop in town and his workshop sometimes tbeing the only shop for repairing. “I am glad that the Government did not force our business to close so that I could continue to at least earn some income that I can use for the payments of expenses, including loan. According to Mr. Araujo, being disciplined at repayment is very important because this has been a one of the Kaebauk’s requisite to continue to get access to new loans.

Mr. Araujo has attended a short course in mechanics and his parents taught him driving and repairing their vehicle since he was very young and he emphasizes that the business he has now is part of his passion. The business is managed by him and his wife – their three children are currently studying in university but their son is helping the parents with repairs in the garage during holidays.



**Mrs. Catarina de Araujo and Family collecting Loan at Kaebauk's branch in Atsabe**

*Mrs. Araujo is Kaebauk's customer of KIF 1 product with amount \$500.00 on 3<sup>rd</sup> April 2020. This is her third time taking loan from Kaebauk, with the previous amount \$800.00. Her main business is baking bread and supplying the bread for students in public schools around Atsabe area. She has used the loan to buy more raw materials to produce the bread and help her financing the operation of the business such as buying fuel for the motorbikes, so that her husband can take the bread to the schools and the area around Atsabe.*

*Mrs. Araujo informed that because of the lockdown, she wanted to take a smaller loan so that she can afford making repayment every month which is consistent with her expected lower income during the pandemic. **"I really hope that the situation will go back to normal soon so that I can have my income stable and be able to expand my business."** With the loan she can have a sustainable business and at the same time, helping her two siblings going to university.*

*Mrs. Araujo is also very happy because Kaebauk existence in a rural area like Atsabe can help her improve her livelihood.*



**Business Customer Mr. Rui Cardoso Freitas and his wife Mrs. Lucia Godinha in their kiosk**

Mr. Freitas from Zumalai has been accessing Kaebauk loan for four times. Now he is a customer of SME plus with total loan \$15,000. According to Mr. Freitas, during the state emergency and lockdown, he observed that the number of customers decrease compared to normal time. It is believed that many people are afraid with the spread of the virus and so they tend to stay at home. However, Mr. Freitas identified that more people are buying the prevention equipment such as disinfectant, mask and people also tend to buy more of basic goods such as rice and canned foods to be ready for any emergency during pandemic, so Mr. Freitas increase the stocks which in high demand during the pandemic.

The pandemic introduced challenges given that his income is less compared with the normal season. Mr. Cardoso and his spouse Mrs. Godinha have therefore put more efforts into getting maximum out of their resources and they have for example used pick up car and motorbikes to bring their inventories to the markets around Zumalai area to increase opportunities to market their goods. This has enabled them to make sufficient income to keep up with their monthly expenses, including repayments to

Kaebauk. *“I see that during this time, we need to be more hard working and stay disciplined to avoid financial issues.”*

Mr. Freitas is very grateful for getting access to loans in Kaebauk because it is very helpful, and a very fast process compared with Banks. In Kaebauk it is only 2 weeks to get their loan approved while according to their experience in accessing a loan in a bank, it would take up to 6 months-time.

Mr. Freitas also said that with the financial assistance from Kaebauk, he can see a concrete change in his life, he is able to send all his four children to the private school.

#### **IV. Regulatory Ratio**

During FY 2020 there were no major issues related to the non-compliance to BCTL Law being reported and Kaebauk has been successfully maintaining all regulatory ratios above the BCTL threshold. In FY 2020 our regulatory ratios were positioned as follow:

**Liquidity risk**, we were well funded with a strong liquidity position, underpinned by long term funding and an appropriately sized liquid assets buffer. The liquidity coverage ratio reported at the end 2020 was 30%, comfortably above the regulatory requirement of 20%.

**Capital Adequacy (CAR)**, we must remain solvent and so balance sheet positioning and capital planning is critical to addressing capital risks. The capital adequacy ratio was at 33% as of 31<sup>st</sup> December 2020 and this ratio is also well in excess of the regulatory requirement of 20%.

# **Financial Report**

**Kaebauk Investimentu No Finansas, SA**  
Financial Statements for the year ended  
December 31, 2020

## **KAEBAUK INVESTIMENTU NO FINANSAS, SA**

### **DIRECTORS' REPORT**

Your Directors present their report on the affairs of the Company for the year ended 31 December 2020.

The Company is an institution registered as joint stock company.

#### **Information on Directors**

The names of the directors in office at any time during or since the end of the period are:

Mr. Hernani V. da Costa Soares	Chairperson
Mr. Alvaro Menezes	Board Member
Mr. Christian Andersen	Board Member
Ms. Aida Silva Pinto Baptista	Board Member
Mr. Mohammed Shamim S. Khan	Board Member <i>Joined 11 May 2020</i>

All directors have held their office from 1 January 2020 to the date of this report unless otherwise stated.

#### **Insurance and Indemnification of Officers or Auditor**

No insurance cover has been provided for the benefit of the auditor.

No indemnities have been given to the officers or auditor.

#### **Principal Activities**

The principal activities of the Company during the year were the provision of financial services to clients in the form of taking deposits and giving loans as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

#### **Operating Results**

The net profit of the Company for the year was \$1,000,870 (2019: \$2,140,259).

#### **Dividends**

A dividend of \$924,176 has been declared for the year ended 31 December 2020 (2019: \$850,000).

#### **Options**

No options over unissued shares or interests in the Company were granted during or since the end of the financial period and there were no options outstanding at the date of this report.

No shares have been issued as a result of the exercise of an option.

#### **Significant Changes in State of Affairs**

Apart from disclosures elsewhere in this report, there were no significant changes in the state of the affairs of the Company during the period.

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**

**DIRECTORS' REPORT**

**Events Subsequent to the End of the Reporting Period**

No other matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of the Company in subsequent financial period.

**Proceedings**

No person has applied for leave of the Court to bring proceedings on behalf of the Company or interfere in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. The Company was not a party to any such proceedings during the period.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 31 December 2020 forms part of this report and a copy of this declaration is attached.

**Environmental Regulation**

The Company's operations are not regulated by any significant environmental regulation under a law of the State.

Signed for and on behalf of the directors in accordance with a resolution of the Board.



Director: Mr. Hernani V. da Costa Soares

Dated this 12 day of April 2021.

**Kaebauk Investimentu No Finansas, SA**  
**Director's Declaration**  
**For the Year Ended 31 December 2020**

The Directors of Kaebauk Investimentu No Finansas, SA ("the Company") declare that:

- a) the financial statements, accompanying the statement of profit and loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes:
  - (i) comply with International Financial Reporting Standards; and
  - (ii) presents fairly the financial position as at 31 December 2020 and of the results of operations for the period then ended.
- b) the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards; and
- c) in the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed for and behalf of the Directors in accordance with a resolution of the Board.



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Hernani Y. da Costa Soares  
Director

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Date: April 12, 2021

**Auditors Independence Declaration to the Directors of Kaebauk Investimentu No Finansas,  
SA**

In relation to our audit of the financial report of Kaebauk Investimentu No Finansas, SA for year ended 31 December 2020, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants* or any applicable code of professional conduct.



Merit Partners



Matthew Kennon  
Partner

Darwin  
12 April 2021

**Independent audit report to the members of Kaebauk Investimentu No Finansas, SA**

**Report on the Audit of the Financial Report**

We have audited the accompanying financial report of Kaebauk Investimentu No Finansas, SA ("the Company"), which comprises the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2020, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of Kaebauk Investimentu No Finansas, SA as at 31 December 2020, and its financial performance and its cash flows for the year ended 31 December 2020 in accordance with *International Financial Reporting Standards*.

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

We are independent of the Company in accordance with the ethical requirements of the *International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants*. ("the Code") that are relevant to our audit of the financial report in Timor-Leste. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

***The Responsibility of the Directors for the Financial Report***

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with *International Financial Reporting Standards* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the International Standards on Auditing 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 the financial report.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 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 report 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 report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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.



Merit Partners



Matthew Kennon  
Partner  
DARWIN  
12 April 2021

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**  
**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

		31-Dec-20	31-Dec-19
	Note	----- USD -----	-----USD-----
Interest Income	2	5,376,809	5,442,735
Interest Expense	2	(579,011)	(612,944)
Net Interest Income		<u>4,797,798</u>	<u>4,829,791</u>
Other revenue and income	3	49,949	428,127
Provisions and write offs	8.1	(305,058)	(203,646)
Administrative Expenses		(190,421)	(208,302)
Repairs and maintenance		(255,889)	(216,141)
Fuel and oil		(141,952)	(148,105)
Employee salaries and benefits expense		(2,047,577)	(1,772,717)
Rent expense		(308,233)	(209,032)
Travel and lodging allowance		(45,296)	(59,029)
Utilities		(101,544)	(94,796)
Depreciation and amortization expense	9 & 10	(110,978)	(121,129)
Other expenses	4	(339,929)	(84,762)
<b>Profit before tax</b>		<b>1,000,870</b>	<b>2,140,259</b>
Income tax expense		-	-
<b>Profit after tax</b>		<b>1,000,870</b>	<b>2,140,259</b>
Other Comprehensive Income for the year		-	-
<b>Total Comprehensive Income for the year</b>		<b>1,000,870</b>	<b>2,140,259</b>

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2020**

		31-Dec-20	31-Dec-19
	Note	----- USD -----	----- USD -----
<b>ASSETS</b>			
Cash and cash equivalents	6	1,355,445	2,372,809
Term Deposits in Banks	7	3,203,157	3,200,000
Loans and advances	8	16,351,084	15,982,041
Property , plant and equipment	9	298,751	218,131
Intangible assets	10	968	150,268
Other assets	11	64,818	68,006
<b>TOTAL ASSETS</b>		<b>21,274,223</b>	<b>21,991,255</b>
<b>LIABILITIES</b>			
Cash Collateral	12	2,721,112	2,794,108
Payables due to other financial institutions	13	9,883,613	11,782,323
Subordinated debt	14	900,000	900,000
Deposits	15	986,045	850,412
Other payables	16	1,346,821	304,474
<b>TOTAL LIABILITIES</b>		<b>15,837,591</b>	<b>16,631,317</b>
<b>NET ASSETS</b>		<b>5,436,632</b>	<b>5,359,938</b>
<b>EQUITY</b>			
Share Capital		2,000,000	2,000,000
Retained Earnings		3,112,628	3,045,149
Reserves		324,004	314,789
<b>TOTAL EQUITIES</b>		<b>5,436,632</b>	<b>5,359,938</b>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	31-Dec-20	31-Dec-19
Note	----- USD -----	----- USD -----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Operating profit	1,000,870	2,140,259
Adjustments:		
Expected credit lossess provision	305,058	203,646
Depreciation	110,978	121,129
Reclassification of intangible asset to expense	177,978	-
Gain/Loss on sale of plant and equipment	(53)	93
Changes in assets and liabilities:		
Loan Portfolio	(674,101)	(718,466)
Prepayments and other receivables	3,188	46,902
Saving deposits and other accruals	180,808	11,880
Net cash generated from operating activities	<u>1,104,726</u>	<u>1,805,443</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed term deposits	(3,157)	218,750
Payments for property, plant and equipment	(220,723)	(101,705)
Proceeds from sale of property, plant and equipment	499	150
Payments for intangible assets	-	-
Net cash used in investing activities	<u>(223,381)</u>	<u>117,195</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	3,717,112	5,525,114
Repayments of loans	(5,615,822)	(4,605,741)
Dividend paid	-	(1,735,000)
Net cash provided by financing activities	<u>(1,898,710)</u>	<u>(815,627)</u>
Net increase in cash held	<u>(1,017,364)</u>	1,107,011
Cash at beginning of the financial year	<u>2,372,809</u>	<u>1,265,798</u>
Cash at the end of financial year	<u><u>1,355,445</u></u>	<u><u>2,372,809</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

**KAERBAUK INVESTIMENTU NO FINANSAS, SA**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	31-Dec-20			31-Dec-19				
	Share Capital	Retained Earnings	Reserves	Total Equity	Share Capital	Retained Earnings	Reserve	Total Equity
Balance at the beginning of the year	2,000,000	3,045,149	314,789	5,359,938	2,000,000	2,069,679		4,069,679
Profit for the year	-	1,000,870	-	1,000,870	-	2,140,259		2,140,259
Transferred to reserves		(9,215)	9,215	-		(314,789)	314,789	-
Dividend Declared		(924,176)	-	(924,176)		(850,000)		(850,000)
Balance at the end of the year	2,000,000	3,112,628	324,004	5,436,632	2,000,000	3,045,149	314,789	5,359,938

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**KAEBAUK INVESTIMENTU NO FINANSAS, SA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**GENERAL INFORMATION**

The financial statements cover KAEBAUK INVESTIMENTU NO FINANSAS, SA (Kaebruk) as an individual entity. Kaebruk is registered as joint stock company with Company registration No. 1242933A/MCIA/III/2016 with total share capital of USD 2,000,000, shareholders are Tuba Rai Metin -58.5%, BOPA Pte Ltd -16.5%, IFC- World Bank Group- 12.5% and Tuir Rasik Mehi (TURAME) -12.5% (to manage stocks of employees collectively). This is the first Other Deposit Taking Institution 'ODTI' in the country.

Kaebruk is mainly promoted by Tuba Rai Metin 'TRM' which had its firm footing for over 15 years in the country with market leader status among MFIs. TRM has transferred its business to Kaebruk with effect from 1st March 2016. BOPA and IFC's equity with Kaebruk is their 1st investment in Timor Leste to strengthen the microfinance sector in the country running on commercial principles with social mission. Kaebruk had 22 branches to make the easy access to financial services.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards.

The financial statements were authorised for issue in accordance with a resolution of the directors on 9 April 2021

The financial statements of KAEBAUK INVESTIMENTU NO FINANSAS, SA as an individual entity comply with all International Financial Reporting Standards (IFRS) that are relevant to the Company. For the purpose of preparing the financial statement, the Company is a for-profit entity.

The financial statements have been prepared on an accrual basis and are based on historical cost except for financial assets available for sale that have been measured at fair value.

The presentation currency of the financial statements is United States Dollars, which is also the functional currency.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Financial assets and financial liabilities**

Introduction

**(i) Initial recognition**

The Company initially recognise loans and advances, deposits, on the date that they are originated. All other financial assets and financial liabilities (including financial assets and financial liabilities designated at fair value through profit and loss) are initially recognised on trade date when the related contractual rights or obligations exist.

**(ii) De-recognition**

The Company de-recognises a financial asset when the contractual right to the cash flows from the asset expire, or it transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Interest in transferred financial assets that is created or retained by the Company is recognise as a separate asset or a liability. The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

**(iii) Off- setting**

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to off set the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

**(iv) Amortised cost measurement**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus or reduction for impairment.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the Company in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

**Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost. Interest is calculated on flat rate basis.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**(a) Financial assets and financial liabilities (Cont.)**

**Deposits**

Refer Note 1 (j) for details.

**Borrowings**

Refer Note 1 (k) for details.

**(b) Revenue**

Loan interest is calculated on the initial loan balance disbursed and is charged upfront to the member's loan account on the first day of the loan. Loan interest revenue is recognised on the basis of the amount received from the member's loan account balance.

When the loan is classified as impaired, the Company ceases to charge interest and other income earned but not yet received. Loan interest is generally not charged when the Company is informed that the member has deceased. No interest is charged on loans where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Loan origination fee income and loan transaction costs that are recognised as income when loan is disbursed.

Fees and commissions are recognised when the performance obligation has been satisfied at a point in time when service to the customer has been rendered.

**(c) Impairment - loans and advances**

A provision for losses on impaired loans is recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which the credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those determined to be credit impaired, lifetime expected credit losses along with the interest income on a net basis are recognised. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden of the borrower. The critical assumptions used in the collections are set out in note 7. Note 19 details the credit risk management approach to loan impairment.

Bad debts are written off as determined by management and the Board, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are on case by case basis, taking into the account the exposure at the date of the write-off. On secured loans, the write-off take place following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where impairment has previously been recognised in relations to a loan. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in profit or loss.

Renegotiated loans are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

**(d) Income Tax**

Under the scheme of Trade Invest, Company has been exempted from Income Tax with effect from February 01, 2017 for the period of five years.

**(e) Property, plant and equipment**

Each class of property, plant and equipment is carried out at cost less any accumulated depreciation and impairment losses.

**Depreciation**

The depreciable amount of all property, plant and equipment, including building, is depreciated over their useful lives to the Company commencing from the time asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight line basis.

A summary of rates used is:

Buildings	10%	Plant and equipment	20.0 - 33.3%
Leasehold improvements	20.0 - 33.3%	Motor Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These gains and losses are included in profit or loss.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**(f) Impairment of assets (excluding financial assets)**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of asset, being the higher of asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at revalued amount).

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(g) Derecognition of Property, plant and equipment**

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

**(h) Intangible assets**

**Computer Software**

Items of computer software which are not integral to the computer hardware owned by the Company are classified as an intangible asset with a finite life. Computer software has a finite life and, accordingly, is amortised on a straight line basis over the expected useful life of the software. These lives range from 2 - 5 years.

**(i) Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Company as a lessee**

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets**

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The right-of-use assets are also subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in interest-bearing loans and borrowings.

**Short-term leases and leases of low-value assets**

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**(j) Deposits**

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposit is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**(k) Borrowings**

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Company chooses to carry the liabilities at fair value through the profit or loss. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

**(l) Accounting estimates and judgments**

The key assumptions concerning the future and other key sources of estimations at reporting date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities with in a next financial year are discussed below:

**(i) Impairment of non-financial assets**

The Company assesses impairment at each reporting date by evaluating conditions specific to the entity that may lead to impairment of assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculation performed in assessing recoverable amount incorporate a number of key estimates.

No impairment has been recognised in respect of property, plant and equipment for the year ended 31 December 2020.

**(ii) Provision for impaired loans**

The provision for impaired loans assessment requires a degree of estimation and judgment. The level of provision is assessed by taking into account the expected credit loss model, credit risk and the specific knowledge of the individual borrower's financial position. The provision amounted to \$368,660 as at 31 December 2020 (2019: \$419,179).

**(m) Reserves**

Reserve is created in accordance with statutory requirement to have 2% provisioning of standard loan as reserve under equity.

**(n) New and Amended Accounting Standards and Interpretations**

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

**Amendments to IAS 1 and IAS 8 Definition of Material**

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

**Conceptual Framework for Financial Reporting**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective and these are not expected to have a material financial reporting impact.

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

		31-Dec-20	31-Dec-19
	Note	.....USD.....	.....USD.....
<b>2</b>	<b>INTEREST INCOME AND INTEREST EXPENSE</b>		
	<b>(a) Interest Income</b>		
	<i>Assets at amortised cost</i>		
	Loans and advances	4,833,408	4,892,895
	Fee and commission	543,401	549,840
	<b>Total Interest Income</b>	<b>5,376,809</b>	<b>5,442,735</b>
	<b>(b) Interest Expense</b>		
	<i>Liabilities at amortised cost</i>		
	Borrowings	566,593	600,196
	Deposits	12,418	12,748
	<b>Total Interest Expense</b>	<b>579,011</b>	<b>612,944</b>
<b>3</b>	<b>OTHER REVENUE AND INCOME</b>		
	Interest on Term Deposits	19,556	18,527
	Grant Income	-	-
	Others	30,393	409,600
	<b>Total other revenue and income</b>	<b>49,949</b>	<b>428,127</b>
<b>4</b>	<b>OTHER EXPENSES</b>		
	Bank Charges	13,205	11,253
	Misc Expenses	15,252	29,345
	Meals for staff	43,261	44,164
	Research & Development Expenses	268,211	-
		<b>339,929</b>	<b>84,762</b>
4.1	Research & development expenses constitute of cost incurred on Core Banking solution project & allied services.		
<b>5</b>	<b>RELATED PARTIES</b>		
5.1	In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms agreed between the parties.		
	<b>Transactions occurred during the year</b>		
<b>TRM</b>	Dividend paid	-	497,250
	Rental expense	169,800	78,300
	Interest Expense on Sub-debt and saving deposits	85,665	86,126
	Commission Income	1,082	515
<b>TURAME</b>	Dividend paid	-	106,250
	<b>Balances as at 31st December 2020</b>		
<b>TRM</b>	Sub Debt	900,000	900,000
	Payable	47,133	12,000
	Saving deposit	146	61,733
	Dividend payable	540,643	-
	Receivable	-	2,552
<b>TURAME</b>	Dividend payable	115,522	-
	Saving deposit	17	6,193
5.2	<i>Compensation of KMPs in total and for each of the following categories was as follows</i>		
	Short-term employee benefits	525,830	569,542
	Post-employment benefits	15,000	-
	<b>Total</b>	<b>540,830</b>	<b>569,542</b>

**KAEBAUK INVESTIMENTU NO FINANSAS, SA**  
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		31-Dec-20	31-Dec-19
	Note	.....USD.....	.....USD.....
<b>6 CASH AND CASH EQUIVALENT</b>			
Cash on hand		67,704	212,658
<b>Banks</b>			
Current		1,287,741	2,160,151
		<u>1,355,445</u>	<u>2,372,809</u>

The effective interest rate on short-term bank deposits is 0% and having maturity of less than three months.

<b>7 TERM DEPOSITS</b>			
<b>Banks</b>			
Mandiri		3,000,000	3,000,000
BNCTL		203,157	200,000
		<u>3,203,157</u>	<u>3,200,000</u>

Deposits are for the period of 1 year and carry interest of 0.50% per annum. Term deposit with Mandiri Bank are kept as cash collateral to avail credit line facility.

<b>8 LOANS AND ADVANCES</b>			
Loans and advances to customers		16,719,744	16,401,220
Gross loan portfolio		16,719,744	16,401,220
Impairment of Loans and advances	8.1	(368,660)	(419,179)
Net Loans and advances		<u>16,351,084</u>	<u>15,982,041</u>

Loans outstanding by geographical location:

Aileu		705,705	787,852
Ainaro		402,681	389,433
Atauro		202,922	206,659
Atsabe		376,016	416,183
Batugade		723,763	659,209
Baucau		1,033,921	1,025,241
Bazartete		676,217	582,691
Becora		1,150,792	1,072,358
Colmera		1,096,806	1,059,824
Comoro		2,356,102	2,344,052
Ermera		443,380	408,576
Laclubar		194,314	260,930
Liquica		872,029	821,412
Lospalos		734,409	633,619
Maliana		1,022,135	1,018,131
Manatuto		423,618	430,837
Maubisse		406,832	365,319
Oecusse		796,888	790,598
Same		768,769	771,775
Suai		1,085,307	1,214,236
Viqueque		709,283	575,763
Zumalai		537,854	566,522
		<u>16,719,744</u>	<u>16,401,220</u>

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<b>8 LOANS AND ADVANCES (continued)</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
Loans accounts by geographical location: (by number of account holders)		
Aileu	713	824
Ainaro	467	502
Atauro	308	349
Atsabe	306	378
Batugade	602	671
Baucau	645	677
Bazartete	618	623
Becora	820	905
Colmera	701	690
Comoro	1,146	1,299
Ermera	391	448
Laclubar	267	369
Liquica	849	891
Lospalos	649	654
Maliana	836	902
Manatuto	439	461
Maubisse	402	383
Oecusse	753	837
Same	762	862
Suai	673	815
Viqueque	435	448
Zumalai	381	411
	<b>13,163</b>	<b>14,399</b>

<b>8.1 Impairment of loans and advances</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
	<b>.....USD.....</b>	<b>.....USD.....</b>
<b>Provision for impairment</b>		
Opening balance	419,179	681,009
Bad debts written off	(355,577)	(152,010)
Reversal of previously provided allowance	-	(313,466)
Charge for the year	305,058	203,646
Closing Balance	<b>368,660</b>	<b>419,179</b>

Details of credit risk management  
are set out in Note 20.

*Key assumptions in determining the provision for impairment*

In the course of the preparation of the financial statements, the Company has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment arising from these events, the Company is required to estimate the impairment, using the length of time the loan is in arrears, the historical losses arising in past years and increase in expected credit losses from significant customer credit deterioration. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses.

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8.1 Impairment of loans and advances (Cont.)

Ageing Analysis

As at 31 December, the ageing analysis and credit classification of loans to customers was as follows:

Credit Classification	Days past due	31-Dec-20	31-Dec-19
		USD	USD
Standard	0	16,201,386	15,740,404
Substandard	1-60	151,643	259,103
Doubtful	61-90	42,412	31,209
Loss	>90	324,303	370,504
<b>Closing Balance</b>		<b>16,719,744</b>	<b>16,401,220</b>

The ageing analysis of loans to customers by branch is as follows:

As at 31 December 2020

Branches	Accounts				
	Standard	Sub Standard	Doubtful	Loss	Total
	USD	USD	USD	USD	USD
Aileu	689,654	7,821	334	7,897	705,705
Ainaro	393,006	5,306	125	4,245	402,681
Atauro	202,922	-	-	-	202,922
Atsabe	367,416	5,225	292	3,083	376,016
Batugade	709,115	4,054	667	9,926	723,763
Baucau	1,022,006	3,140	1,152	7,622	1,033,921
Bazartete	674,205	-	-	2,013	676,217
Becora	1,070,008	17,645	8,276	54,864	1,150,792
Colmera	1,028,271	20,962	2,622	44,952	1,096,806
Comoro	2,144,694	60,102	22,881	128,424	2,356,102
Ermera	426,562	4,161	1,318	11,339	443,380
Laclubar	192,329	1,079	-	906	194,314
Liquica	871,603	-	-	426	872,029
Lospalos	731,355	-	-	3,054	734,409
Maliana	1,004,659	2,819	212	14,445	1,022,135
Manatuto	422,659	-	-	959	423,618
Maubisse	406,003	-	-	829	406,832
Oecusse	783,411	3,035	4,533	5,909	796,888
Same	765,652	1,491	-	1,625	768,769
Suai	1,057,789	14,804	-	12,714	1,085,307
Viqueque	705,876	-	-	3,407	709,283
Zumalai	532,190	-	-	5,664	537,854
<b>Total</b>	<b>16,201,386</b>	<b>151,643</b>	<b>42,412</b>	<b>324,303</b>	<b>16,719,744</b>

As at 31 December 2019

Branches	Accounts				
	Standard	Sub Standard	Doubtful	Loss	Total
	USD	USD	USD	USD	USD
Aileu	763,781	20,000	1,531	2,540	787,852
Ainaro	385,973	3,460	-	-	389,433
Atauro	206,659	-	-	-	206,659
Atsabe	394,159	11,835	-	10,189	416,183
Batugade	646,209	9,427	-	3,573	659,209
Baucau	1,004,869	3,705	833	15,834	1,025,241
Bazartete	571,940	10,751	-	-	582,691
Becora	980,753	28,690	6,709	56,206	1,072,358
Colmera	1,011,712	35,257	-	12,855	1,059,824
Comoro	2,173,962	73,313	10,040	86,737	2,344,052
Ermera	377,414	6,443	2,647	22,072	408,576
Laclubar	253,882	-	-	7,048	260,930
Liquica	797,627	13,132	-	10,653	821,412
Lospalos	623,875	2,856	-	6,888	633,619
Maliana	950,322	10,657	3,140	54,012	1,018,131
Manatuto	428,790	834	-	1,213	430,837
Maubisse	350,870	3,637	-	10,812	365,319
Oecusse	771,626	7,482	1,848	9,642	790,598
Same	763,198	1,272	-	7,305	771,775
Suai	1,167,636	6,109	2,378	38,113	1,214,236
Viqueque	569,559	1,427	-	4,777	575,763
Zumalai	545,588	8,816	2,083	10,035	566,522
<b>Total</b>	<b>15,740,404</b>	<b>259,103</b>	<b>31,209</b>	<b>370,504</b>	<b>16,401,220</b>

KAERBAUK INVESTIMENTU NO FINANSAS, SA  
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9 Property and equipment

	December 31, 2020												
	Cost					Accumulated Depreciation					Net Book value as at December 31, 2020	Rate of depreciation	
	As at January 01, 2020	Additions	Disposals	As at December 31, 2020	Charge for the period	(Disposals)	As at December 31, 2020	As at January 01, 2020	Charge for the period	(Disposals)			As at December 31, 2020
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
Buildings on leasehold land	60,324	-	-	60,324	4,544	-	60,324	55,780	4,544	-	60,324	-	10-33.33%
Furniture and fixtures and Office equipment	640,366	40,772	(28,678)	652,460	79,594	-	546,435	466,841	79,594	-	106,025	106,025	20-33.33%
Vehicles	140,491	70,000	(1,341)	209,150	26,840	(895)	126,374	100,429	26,840	(895)	82,776	82,776	20%
	<u>841,181</u>	<u>110,772</u>	<u>(30,019)</u>	<u>921,934</u>	<u>110,978</u>	<u>(895)</u>	<u>733,133</u>	<u>623,050</u>	<u>110,978</u>	<u>(895)</u>	<u>188,801</u>	<u>188,801</u>	

	December 31, 2019												
	Cost					Accumulated Depreciation					Net Book value as at December 31, 2019	Rate of depreciation	
	As at January 01, 2019	Additions	Disposals	As at December 31, 2019	Charge for the year	(Disposals)	As at December 31, 2019	As at January 01, 2019	Charge for the year	(Disposals)			As at December 31, 2019
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
Buildings on leasehold land	60,324	-	-	60,324	18,780	-	55,780	37,000	18,780	-	55,780	4,544	10-33.33%
Furniture and fixtures and Office equipment	567,290	76,405	(3,329)	640,366	77,146	(3,086)	486,841	392,781	77,146	(3,086)	173,525	173,525	20-33.33%
Vehicles	140,491	-	-	140,491	24,098	-	100,429	76,331	24,098	-	40,062	40,062	20%
	<u>768,105</u>	<u>76,405</u>	<u>(3,329)</u>	<u>841,181</u>	<u>120,024</u>	<u>(3,086)</u>	<u>623,050</u>	<u>506,112</u>	<u>120,024</u>	<u>(3,086)</u>	<u>218,131</u>	<u>218,131</u>	

KAERBAUK INVESTIMENTU NO FINANSAS, SA  
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10 Intangible assets

	December 31, 2020					Net Book value as at December 31, 2020	Rate of depreciation
	As at January 01, 2020	As at December 31, 2020	Disposals	As at January 01, 2020	Charge for the period		
.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	
43,302	-	-	43,302	42,334	-	42,334	968 33.33%
<u>43,302</u>	<u>-</u>	<u>-</u>	<u>43,302</u>	<u>42,334</u>	<u>-</u>	<u>42,334</u>	<u>968</u>

Computer Software

	December 31, 2019					Net Book value as at December 31, 2019	Rate of depreciation
	As at January 01, 2019	As at December 31, 2019	Disposals	As at January 01, 2019	Charge for the period		
.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	
43,302	-	-	43,302	41,229	1,105	42,334	968 33.33%
<u>43,302</u>	<u>-</u>	<u>-</u>	<u>43,302</u>	<u>41,229</u>	<u>1,105</u>	<u>42,334</u>	<u>968</u>

Computer Software

	31-Dec-20	31-Dec-19
(a) Work In Process		
Operating Balance	149,300	124,000
Advance against acquisition of Core Banking Solution Software	-	25,300
Lease hold improvements	109,950	-
Reclassification of intangible asset to expense	(149,300)	-
	<u>109,950</u>	<u>149,300</u>

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		31-Dec-20	31-Dec-19
	Note	.....USD.....	.....USD.....
<b>11 OTHER ASSETS</b>			
Advances to vendors and staff		37,854	46,574
Receivables		2,900	5,492
Prepayments		24,064	15,940
		<u>64,818</u>	<u>68,006</u>
<b>12 Cash Collateral</b>			
Cash Collateral	12.1	2,721,112	2,794,108
		<u>2,721,112</u>	<u>2,794,108</u>

**12.1** The Cash Collateral represents the compulsory deposits required from loan customers.

Cash Collateral balances by geographical location:

Aileu	121,282	130,035
Ainaro	63,224	60,205
Atauro	33,075	35,270
Atsabe	59,979	66,868
Batugade	111,348	110,570
Baucau	171,976	172,351
Bazartete	105,400	93,100
Becora	173,347	180,059
Colmera	173,905	178,973
Comoro	360,022	380,370
Ermera	71,728	71,579
Laclubar	34,921	43,338
Liquica	140,007	140,445
Lospalos	122,927	109,457
Maliana	170,762	175,916
Manatuto	70,375	71,429
Maubisse	66,963	57,400
Oecusse	135,659	142,978
Same	136,080	143,645
Suai	186,851	212,728
Viqueque	123,357	119,637
Zumalai	87,925	97,755
	<u>2,721,112</u>	<u>2,794,108</u>

13 PAYABLE TO OTHER FINANCIAL INSTITUTIONS

	December 31, 2020					
	Balance as at January 01, 2020	Loans received during the year	Loans repaid during the year	Balance as at December 31, 2020	Current Loans	Non-Current Loans
European Investment Bank-EIB	1,118,200	1,109,073	-	2,227,273	223,640	2,003,633
KIVA	706,556	123,039	(218,255)	611,340	433,309	178,031
Incofin	2,000,000	985,000	(1,000,000)	1,985,000	1,000,000	985,000
Triple Jump	1,000,000	-	(1,000,000)	-	-	-
Mandiri Bank	2,657,567	-	(1,097,567)	1,560,000	1,560,000	0
International Financial Corporation-IFC	-	1,500,000	-	1,500,000	-	1,500,000
Symbiotics S A	3,800,000	-	(1,800,000)	2,000,000	2,000,000	-
Stichting Cordaid	500,000	-	(500,000)	-	-	-
	<b>11,782,323</b>	<b>3,717,112</b>	<b>(5,615,822)</b>	<b>9,883,613</b>	<b>5,216,949</b>	<b>4,666,665</b>

	December 31, 2019					
	Balance as at January 01, 2019	Loans received during the year	Loans repaid during the year	Balance as at December 31, 2019	Current Loans	Non-Current Loans
European Investment Bank-EIB	-	1,118,200	-	1,118,200	-	1,118,200
KIVA	642,321	121,364	(57,129)	706,556	529,917	176,639
Incofin	2,500,000	2,000,000	(2,500,000)	2,000,000	1,000,000	1,000,000
LMDF-ADA	187,500	-	(187,500)	-	-	-
Triple Jump	1,500,000	-	(500,000)	1,000,000	1,000,000	-
Mandiri Bank	2,372,017	285,550	-	2,657,567	2,657,567	-
International Financial Corporation-IFC	111,112	-	(111,112)	-	-	-
Symbiotics S A	2,550,000	2,000,000	(750,000)	3,800,000	1,800,000	2,000,000
Stichting Cordaid	100,000	-	(500,000)	500,000	500,000	-
	<b>10,862,950</b>	<b>5,525,114</b>	<b>(4,605,741)</b>	<b>11,782,323</b>	<b>7,487,484</b>	<b>4,294,839</b>

The Symbiotics SA, loan is issued to finance micro, small, or medium enterprises and/or low and middle income households. The loan agreement requires that Kaebauk Investimentu No Finansas, SA to maintain a Capital Adequacy ratio of not less than 20% and all other Regulatory Prudential Ratios.

The Stichting Cordaid loan is intended to finance micro-credit loans to expand the microfinance portfolio. The loan is provided for the period of 3 years. The loan agreement requires that Kaebauk Investimentu No Finansas, SA to maintain a Capital Adequacy ratio of not less than 20%

The KIVA Micro funds represents small loans obtained from KIVA web based business which allows website user throughout the world to connect with local lenders that provide small loans to individuals or groups in developing countries.

The purpose of European Investment Bank (EIB)'s loan is to provide funds to KIF to support micro and small enterprises, self employed entrepreneurs and sole proprietorships in urban and rural areas and also low-income house hold to improve housing & sanitation.

The Incofin loan is intended for KIF to follow its set growth pattern and consolidate its existing activities of extending small loans to micro-entrepreneurs. The loan term is for 2 years, among others, the loan agreement requires that KIF shall at all times maintain a capital adequacy ratio of not less than 20%, risk coverage ratio of not less than 100% and liquidity ratio of a minimum of 20%.

The loan from "MicroBuild I.B.V (represented by "Triple Jump B.V.)" aims to support the on-lending activities of the Borrower aimed at improving housing condition of low income families in home country. The loan term is for two years from the date of disbursement.

Mandiri loan represents amounts withdrawn for the revolving loan facility to provide support for capital funding of the Organisation. The loan is 100% secured with cash collateral as Term Deposit.

The purpose of the IFC Loan is to provide the borrower with funding to be used by the borrower for financing its lending operations to micro and small enterprises in the Country. The loan term is for four years from the date of disbursement.

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14 SUB ORDINATED DEBT

December 31, 2020					
Balance as at January 01, 2020	Loans received during the year	Loans repaid during the year	Balance as at December 31, 2020	Current Loans	Non-Current Loans
Tuba Rai Metin-TRM	900,000	-	-	900,000	900,000
	900,000	-	-	900,000	-
					900,000

December 31, 2019					
Balance as at January 01, 2019	Loans received during the year	Loans repaid during the year	Balance as at December 31, 2019	Current Loans	Non-Current Loans
Tuba Rai Metin-TRM	900,000	-	-	900,000	900,000
	900,000	-	-	900,000	-
					900,000

15 DEPOSITS

Demand Deposits

Note	31-Dec-20 .....USD.....	31-Dec-19 .....USD.....
	986,045	850,412
	986,045	850,412

Deposit balances by geographical location:

Aileu	119,568	59,212
Ainaro	18,152	11,626
Atauro	1,199	725
Atsabe	4,947	8,083
Batugade	55,088	37,789
Baucau	106,587	71,495
Bazartete	10,859	5,323
Becora	27,570	25,207
Colmera	33,118	11,102
Comoro	136,541	201,030
Ermera	39,047	24,043
Laclubar	1,710	5,896
Liquica	29,908	36,235
Lospalos	11,928	6,017
Maliana	102,134	82,343
Manatuto	25,357	21,754
Maubisse	10,678	12,591
Oecusse	50,436	58,679
Same	63,369	32,682
Suai	72,185	82,864
Viqueque	52,114	44,697
Zumalai	13,550	11,019
	986,045	850,412

16 OTHER PAYABLES

Dividend payable  
Sundry creditors and accruals

Dividend payable	924,176	-
Sundry creditors and accruals	422,645	304,474
	1,346,821	304,474

**KAERBAUK INVESTMENTU NO FINANSAS, SA**  
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	31-Dec-20	31-Dec-19
Note	.....USD.....	.....USD.....
<b>17 COMMITMENTS</b>		
<b>Outstanding loan commitments</b>		
Loans and credit facilities approved but not funded or drawn at the end of the financial period:		
Loan approved but not funded	<u>4,500,000</u>	<u>1,100,000</u>
	<u>4,500,000</u>	<u>1,100,000</u>

**18 BORROWING FACILITIES**

The Organisation has the following borrowing facilities :

	Approved Facility .....USD.....	Used at Reporting Date .....USD.....	Net Available .....USD.....
<b>2020</b>			
<i>Pre-approved loan facility</i>			
Mandiri Bank	<u>2,943,094</u>	<u>1,560,000</u>	<u>1,383,094</u>
	<u>2,943,094</u>	<u>1,560,000</u>	<u>1,383,094</u>

The overdraft facility is 100% secured against term deposit in Mandiri Bank.

	Approved Facility .....USD.....	Used at Reporting Date .....USD.....	Net Available .....USD.....
<b>2019</b>			
<i>Pre-approved loan facility</i>			
Mandiri Bank	<u>2,940,000</u>	<u>2,657,567</u>	<u>282,433</u>
	<u>2,940,000</u>	<u>2,657,567</u>	<u>282,433</u>

**19 CONTINGENT LIABILITIES**

The Company had no contingent liabilities as at 31 December 2020.

**20 RISK MANAGEMENT POLICY AND OBJECTIVES**

Introduction

The risk philosophy of KIF is to establish a robust risk management system in the organization, with a view to inculcate risk culture, enhance stakeholder value and comply with regulatory guidelines.

The board of Directors (the Board) has endorsed a policy of compliance and risk management and Risk appetite to suit the risk profile of the Organisation

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk management
- Liquidity risk management
- Credit risk management
- Operations risk management including data risk management

Authority flows from the Board to the risk management committee and from there to the audit committee which are integral to the management of risk.

The main elements of risk governance are as follows:

(i) Board

This is the primary governing body and approves the level of risk to which the Company is exposed and the framework for reporting and mitigating those risks.

20 RISK MANAGEMENT POLICY AND OBJECTIVES (Cont.)

(ii) Audit Committee

As part of the integrated risk framework, a three line defence mechanism has been implemented. Business as the first line of defence defines and adheres to controls. Risk and compliance units act as the second line to monitor and enhance controls. The Internal Audit Department as the third line of defence provides oversight and independent assurance on the effectiveness of the design and operations of the risk control framework.

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with controls, and provides feedback to the Risk Management Committee for their consideration.

(iii) Internal Audit

Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee. On periodic basis Audit Committee reviews reports and recommends for action.

(iv) Risk Management Committee

This is a key body in the control of risk. It has three representatives from the Board and reports are put up by the Company's Risk Manager. CEO is not present in the meetings to keep independence of risk reporting. The Risk Management Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Management Committee through monthly review of operational reports. Control assignments are reviewed by the Risk Management Committee monthly to confirm whether risks are within the parameters outlined by Board.

The Risk Management Committee carries out a regular review of all operational areas to ensure that operational risks, credit risks and other risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. The Risk Management Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

Arrears are strictly controlled. The size of loan book is such that it is possible to monitor each individual exposure to evaluate whether provisions are necessary and adequate. A dedicated credit control team, which reports to the committee, implements the Organisation's credit risk policy.

The Company has undertaken the following strategies to minimize the risks arising from financial instruments.

(iv) Risk Manager

Risk Manager has responsibility for both liaising with the operational function to ensure timely production of information for the Risk Committees and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

(iv) Asset and Liability Committee (ALCO) - IRR and Liquidity Risk

This committee meets monthly as financial market in the country is not very dynamic yet and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The monthly scrutiny of liquidity position in different time buckets to ensure liquidity risk is well monitored.

The management of market risk is the responsibility of the ALCO Committee whose reports go to the audit committee of the Board and on a monthly basis to Risk Management Committee.

(i) Interest rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to changes in interest rates. Most ADIs are exposed to interest rate risk within their Treasury operations but in Timor Leste financial market and control measures are still at infancy stage and local currency is also USD. KIF is putting all interest on fixed rate for lending as well as borrowing. ALCO reporting needs to keep pace of market dynamics as per growth of vibrancy.

A. Credit Risk

Credit risk is the risk that customers, financial institutions and other counterparties will be unable to meet to their obligations to the Company which may result in financial losses. Credit risk arises principally from the Company's loan book and investment assets.

20 RISK MANAGEMENT POLICY AND OBJECTIVES (Cont.)

**Credit risk - loans and advances**

The maximum credit risk exposure in relation to loans is discussed in Note 21. Concentrations are discussed below.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before loans are approved and close monitoring of defaults in the repayment of loans thereafter on a regular basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are credit-worthy (capable of meeting loans repayments).

The Company has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the individual borrowers, ending and concentrations of geographic groups considered a high risk of default;
- Reassessing and review of the credit exposures on loan and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

(i) Past due and impairment loans

A loan is past due when the counterparty has failed to make payment when contractually due. Past due does not mean that a counter-party will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

Reports monitor loan repayments or detect delays in repayments and recovery action is undertaken regularly. For loans where repayments are doubtful recovery action is undertaken once the loan is in arrears. The exposures to losses arise predominantly in the personal loans.

Provisions are maintained at a level that the management deems sufficient to absorb probable incurred losses in the Company's loan portfolio from homogenous portfolios of assets and individually identified loans.

(i) Concentration risk - individuals

Concentration risk is a measurement of the Company's exposure to an individual counterparty.

The Company minimizes concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers and different sectors. Sector wise portfolio's division is as follows:

Agriculture Water & Forestry	12.72%
Construction/Housing	7.69%
Individuals	0.92%
Manufacturing	0.56%
Others	14.22%
Services	5.20%
Trade & Finance	58.65%
Transport & Communication	0.05%

**B. Liquidity Risk**

Liquidity risk is the risk that the Company may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Company manages liquidity risk by:

- Continuously monitoring actual cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and financial liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and

The maturity profile of financial liabilities based on the contractual repayment terms is set out in Note 20.

21 MATURITY PROFILE OF FINANCIAL LIABILITIES

The table below shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values.

	Carrying amount	Total Cash Flows	Within 1 month	1 - 6 months	7 - 12 months	1 - 5 years	Over 5 years
	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....
<b>2020</b>							
Cash Collateral	2,721,112	2,721,112	208,880	1,008,425	840,551	663,257	-
Payables due to other financial institutions	10,783,613	10,783,613	1,338,185	1,000,000	2,878,763	5,566,665	-
Other payables	422,645	422,645	422,645	-	-	-	-
Deposits	986,045	986,045	98,572	157,716	729,757	-	-
	14,913,415	14,913,415	2,068,283	2,166,140	4,449,071	6,229,921	-
<b>2019</b>							
Cash Collateral	2,794,108	2,794,108	231,832	1,092,475	847,919	621,882	-
Payables due to other financial institutions	12,682,323	12,682,323	3,687,484	1,250,000	2,550,000	5,194,839	-
Other payables	304,474	304,474	80,158	172,016	52,300	-	-
Deposits	850,412	850,412	70,868	354,338	425,206	-	-
	16,631,317	16,631,317	4,070,342	2,868,829	3,875,425	5,816,721	-

To manage liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and cash equivalents. These assets are readily available to meet liquidity requirements

22 INTEREST RATE RISK

The Company's exposure to interest rate risk, which is the risk that financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates is set below.

	Floating interest rate	Fixed interest rate maturing			Non-interest sensitive	Total
		Within 1 year	1 - 5 years	Over 5 years		
	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....	.....USD.....
<b>2020</b>						
Cash and cash equivalents	-	-	-	-	1,355,445	1,355,445
Term Deposits in Banks	-	3,200,000	-	-	-	3,200,000
Loans Portfolio	-	12,644,395	4,075,349	-	-	16,719,744
Other Assets	-	-	-	-	64,818	64,818
Cash Collateral	-	-	-	-	(2,721,112)	(2,721,112)
Saving Deposits	(986,045)	-	-	-	-	(986,045)
Payables due to other financial institutions	(5,216,949)	(5,216,949)	(5,566,665)	-	-	(10,783,613)
Other Current Liabilities	-	-	-	-	(1,346,821)	(1,346,821)
<b>Interest sensitivity gap</b>	-	9,641,401	(1,491,315)	-	(2,647,670)	5,502,416
<b>2019</b>						
Cash and cash equivalents	-	-	-	-	2,372,809	2,372,809
Term Deposits in Banks	-	3,200,000	-	-	-	3,200,000
Loans Portfolio	-	12,750,816	3,650,404	-	-	16,401,220
Other Assets	-	-	-	-	68,006	68,006
Cash Collateral	-	-	-	-	(2,794,108)	(2,794,108)
Saving Deposits	(850,412)	-	-	-	-	(850,412)
Payables due to other financial institutions	(7,487,484)	(7,487,484)	(5,194,839)	-	-	(12,682,323)
Other Current Liabilities	-	-	-	-	(304,474)	(304,474)
<b>Interest sensitivity gap</b>	-	7,612,920	(1,544,435)	-	(657,767)	5,410,718

23

CREDIT RISK

The Company incurs risks with regards to loans and advances made to customers and other monies or investments held with financial institutions. The Company's exposure to credit risk arises from potential default of the customer, with a maximum credit risk exposure equal to carrying value of the loans. Exposure at the balance sheet date is addressed in each applicable note. The Company extends loans only to recognised and credit worthy customers.

**KAERBAUK INVESTIMENTU NO FINANSAS, SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair Value estimates

The fair value estimates were determined as follows:

**Cash and cash equivalents, receivables due from other financial institutions and other receivables**

The carrying values approximate their value as they are short term in nature or are receivable on demand.

**Loans and Advances**

The fair value for fixed rate loans is their carrying values.

**Short-term borrowings, payables due to other financial institutions and other payables**

The carrying value approximates their fair value as they are short term in nature.

**Deposits**

The fair value of saving deposit is their carrying values.

**25 WORKING CAPITAL**

	31-Dec-20	31-Dec-19
Note	.....USD.....	.....USD.....
<b>Current Assets</b>		
Cash and cash equivalents	1,355,445	2,372,809
Term Deposits in Banks	3,203,157	3,200,000
Loans and advances	12,644,395	12,750,816
<b>Total Current Assets</b>	<b>17,202,997</b>	<b>18,323,625</b>
<b>Current Liabilities</b>		
Cash Collateral	2,057,855	2,172,226
Payables due to other financial institutions	5,216,949	7,487,484
Other payables	1,346,821	304,474
Deposits	986,045	850,412
<b>Total Current Liabilities</b>	<b>9,607,670</b>	<b>10,814,596</b>
<b>Net Current Assets</b>	<b>7,595,326</b>	<b>7,509,029</b>

**26 ECONOMIC DEPENDENCY**

Sustainability is a major issue for microfinance institutions and their funders. The future operations of the Company are dependent upon the current market and economic situation and continue funding in Timor Leste.

**27 IMPACT OF COVID-19 PANDEMIC CRISIS AND GOING CONCERN**

For most of entities, the COVID-19 crisis has led to more variability and uncertainty underlying the preparation of the financial statements. As the Company engages in the delivery of the microfinance loans and other financial services activities, the COVID-19 pandemic crisis has impacted the Company in a number of ways as follows:

- a) adopting to changes of the Company office operations due to quarantine measures imposed by Timor-Leste government, which include both safety and health measures;
- b) given the social distancing regime and the inability for members to travel, all previously organised events have either been postponed or conducted via video or teleconferencing;
- c) the Company's provided pay holiday for their loan customers for 2 months during the lockdown period.

The most challenging area of consideration from the COVID-19 crisis is impairment of financial assets and the supportable estimates of future cash flows. Although current estimates suggest limited volatility in cash flows projections and growth rates there is increased volatility as a result of the crisis.

The financial statements of the Company have been prepared on the basis that it is a going concern and that the Company will continue to operate.

Despite the ongoing uncertainty in relation to the COVID-19 pandemic impact, the Board believes that the Company will continue to provide its key services and will be able to generate sufficient cash flows to be able to pay its debts when they fall due. As such, the Company believes the going concern assumption used is appropriate.



Ami ho ita

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