Kaebauk Investimentu No Finansas, SA

Financial Statements for the year ended
December 31, 2021

KAEBAUK INVESTIMENTU NO FINANSAS, SA

DIRECTORS' REPORT

Your Directors present their report on the affairs of the Company for the year ended 31 December 2021.

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. Muhammad Shamim Khan	Board Member

All directors have held their office from 1 January 2021 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 $1,385,366 (2020:$1,000,870)

Dividends
A dividend of $970,000 has been declared for the year ended 31 December 2021 (2020: $924,176).

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 2021 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. Alvaro Menezes

Dated this 25 April 2022

Kaebauk Investimentu No Finansas, SA
Director's Declaration
For the Year Ended 31 December 2021

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 2021 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.

Alvaro Menezes
Director

Date: April 25, 2022

merit
chartered accountants

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 2021, 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

Merit Partners

Matthew Kennon
Partner

Darwin
25 April 2022

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 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2021, 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 2021, and its financial performance and its cash flows for the year ended 31 December 2021 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

Merit Partners

Matthew Kennon
Partner
DARWIN
25 April 2022

KAEBAUK INVESTIMENTU NO FINANSAS, SA
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

	Note	31-Dec-21	31-Dec-20
		-------- USD --------	-------USD-------
Interest Income	2	5,708,270	5,376,809
Interest Expense	2	(595,273)	(579,011)
Net Interest Income		5,112,997	4,797,798
Other revenue and income	3	294,781	49,949
Provisions and write-offs	8.1	(682,718)	(305,058)
Administrative Expenses		(152,418)	(190,421)
Repairs and maintenance		(233,095)	(255,889)
Fuel and oil		(145,149)	(141,952)
Employee salaries and benefits expense		(2,204,712)	(2,047,577)
Rent expense		(299,699)	(308,233)
Travel and lodging allowance		(28,825)	(45,296)
Utilities		(115,266)	(101,544)
Depreciation and amortization expense	9 & 10	(98,810)	(110,978)
Other expenses	4	(61,720)	(339,929)
Profit before tax		1,385,366	1,000,870
Income tax expense		-	-
Profit after tax		1,385,366	1,000,870
Other Comprehensive Income for the year		-	-
Total Comprehensive Income for the year		1,385,366	1,000,870

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, 2021

	Note	31-Dec-21	31-Dec-20
		------- USD ------	------- USD ------
ASSETS			
Cash and cash equivalents	6	1,654,477	1,355,445
Term Deposits	7	3,205,373	3,203,157
Loans and advances	8	17,029,809	16,351,084
Property , plant and equipment	9 & 10a	517,697	298,751
Intangible assets	10	-	968
Other assets	11	369,181	64,818
TOTAL ASSETS		22,776,537	21,274,223
LIABILITIES			
Cash Collateral	12	2,734,085	2,721,112
Payables due to other financial institutions	13	10,758,608	9,883,613
Subordinated debt	14	900,000	900,000
Deposits	15	843,895	986,045
Other payables	16	1,687,951	1,346,821
TOTAL LIABILITIES		16,924,539	15,837,591
NET ASSETS		5,851,998	5,436,632
EQUITY			
Share Capital		2,000,000	2,000,000
Retained Earnings		3,265,260	3,112,628
Reserves		586,738	324,004
TOTAL EQUITIES		5,851,998	5,436,632

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, 2021

	Note	31-Dec-21	31-Dec-20
		------- USD -------	------ USD ------
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		**1,385,366**	1,000,870
Adjustments:			
Expected credit losses provision		**682,718**	305,058
Depreciation & Amortization		**98,810**	110,978
Write off of Intangible Assets		**-**	177,978
Gain on sale of Property, plant and equipment		**(10,000)**	(53)
Changes in assets and liabilities:			
Loans & Advances		**(1,361,443)**	(674,101)
Prepayments and other receivables		**(304,363)**	3,188
Saving deposits and other accruals		**166,129**	180,808
Net cash generated from operating activities		**657,217**	1,104,726
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed term deposits		**(2,216)**	(3,157)
Payments for property, plant and equipment		**(316,788)**	(220,723)
Proceeds from sale of property, plant and equipment		**10,000**	499
Net cash used in investing activities		**(309,004)**	(223,381)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans		**8,737,292**	3,717,112
Repayments of loans		**(7,862,297)**	(5,615,822)
Dividend paid		**(924,176)**	-
Net cash used in financing activities		**(49,181)**	(1,898,710)
Net Increase/ (Decrease) in cash held		**299,032**	(1,017,364)
Cash at beginning of the financial year		**1,355,445**	2,372,809
Cash at the end of financial year	**5**	**1,654,477**	1,355,445

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

KAEBAUK INVESTIMENTU NO FINANSAS, SA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

	31-Dec-21				31-Dec-20			
	Share Capital	**Retained Earnings**	**Reserves**	**Total Equity**	Share Capital	Retained Earnings	Reserve	Total Equity
Balance at the beginning of the year	**2,000,000**	**3,112,628**	**324,004**	**5,436,632**	2,000,000	3,045,149	314,789	5,359,938
Profit for the year	**-**	**1,385,366**	**-**	**1,385,366**	-	1,000,870	-	1,000,870
Transferred to reserves		**(262,734)**	**262,734**	**-**		(9,215)	9,215	-
Dividend Declared	**-**	**(970,000)**	**-**	**(970,000)**	-	(924,176)	-	(924,176)
Balance at the end of the year	**2,000,000**	**3,265,260**	**586,738**	**5,851,998**	2,000,000	3,112,628	324,004	5,436,632

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

GENERAL INFORMATION

The financial statements cover KAEBAUK INVESTIMENTU NO FINANSAS, SA "Kaebauk or KIF or company" as an individual entity. Kaebauk 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 ("TRM") -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). Kaebauk is the first Other Deposit Taking Institution 'ODTI' in the country.

Kaebauk is mainly promoted by Tuba Rai Metin which had its firm footing for over 15 years in the country with market leader status among MFIs. TRM has transferred its business to Kaebauk with effect from 1st March 2016. BOPA and IFC's equity with Kaebauk is their 1st investment in Timor Leste to strengthen the microfinance sector in the country running on commercial principles with social mission. Kaebauk 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 25 April 2022.

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

<u>Introduction</u>

(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 8. Note 20 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 to 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%	Furniture, Fixtures and Office 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 and office rental (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 2021.

(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 $1,016,093 as at 31 December 2021 (2020: $368,660).

(m) Reserves

Reserve is created in accordance with statutory requirement to have 2% provisioning of standard loan as reserve under equity. Additional reserve was recognised during the year in acordance with terms and conditions agreed with a specific lender.

(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 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These new standards are as follows:

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

• A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
• Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
• Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - continued
• Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Several other amendments and interpretations apply for the first time in 2021, 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.

		Note	31-Dec-21	31-Dec-20
			…….USD……	…….USD……
2	**INTEREST INCOME AND INTEREST EXPENSE**			
	(a) Interest Income			
	Assets at amortised cost			
	Loans and advances		**5,528,063**	4,833,408
	Fee and commission		**180,207**	543,401
	Total Interest Income		**5,708,270**	5,376,809
	(b) Interest Expense			
	Liabilities at amortised cost			
	Borrowings		**587,168**	566,593
	Deposits		**8,105**	12,418
	Total Interest Expense		**595,273**	579,011
3	**OTHER REVENUE AND INCOME**			
	Interest on Term Deposits		**19,121**	19,556
	Gain on disposal of assets		**10,000**	-
	Others		**265,660**	30,393
	Total other revenue and income		**294,781**	49,949
4	**OTHER EXPENSES**			
	Bank Charges		14,158	13,205
	Misc Expenses		490	15,252
	Meals for staff		47,072	43,261
	Research & Development Expenses		-	268,211
			61,720	339,929

5 RELATED PARTIES

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.

		31-Dec-21	31-Dec-20
Transactions occurred during the year			
TRM	Dividend paid	**540,643**	-
	Rental expense	**180,020**	169,800
	Interest Expense on Sub-debt and saving deposits	**85,000**	85,665
	Commission Income	**-**	1,082
TURAME	Dividend paid	**115,522**	-
Balances as at 31 December			
TRM	Sub Debt	**900,000**	900,000
	Payable	**529**	47,133
	Saving deposit	**146**	146
	Dividend payable	**567,450**	540,643
	Receivable	**-**	-
TURAME	Dividend payable	**121,250**	115,522
	Saving deposit	**17**	17

5.2 *Compensation of KMPs in total and for each of the following categories was as follows*

	31-Dec-21	31-Dec-20
Short-term employee benefits	**543,532**	525,830
Post-employment benefits	**20,266**	15,000
Total	**563,798**	540,830

		Note	31-Dec-21	31-Dec-20
			…….USD……	…….USD……
6	**CASH AND CASH EQUIVALENT**			
	Cash on hand		**59,562**	67,704
	Banks			
	Current		**1,594,915**	1,287,741
			1,654,477	1,355,445

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

		Note	31-Dec-21	31-Dec-20
7	**TERM DEPOSITS**			
	Banks			
	Mandiri		**3,000,000**	3,000,000
	BNCTL		**205,373**	203,157
			3,205,373	3,203,157

Deposits are for the period of 1 year and carry interest of 1.1% & 0.50% per annum. Term deposit with Mandiri Bank are kept as cash collateral to avail credit line facility.

		Note	31-Dec-21	31-Dec-20
8	**LOANS AND ADVANCES**			
	Loans and advances to customers		**18,045,902**	16,719,744
	Gross loan portfolio		**18,045,902**	16,719,744
	Impairment of Loans and advances	**8.1**	**(1,016,093)**	(368,660)
	Net Loans and advances		**17,029,809**	16,351,084

Loans outstanding by geographical location:

	31-Dec-21	31-Dec-20
Aileu	**662,032**	705,705
Ainaro	**397,618**	402,681
Atauro	**234,478**	202,922
Atsabe	**407,843**	376,016
Batugade	**816,358**	723,763
Baucau	**1,085,003**	1,033,921
Bazartete	**731,828**	676,217
Becora	**1,409,599**	1,150,792
Colmera	**1,143,820**	1,096,806
Comoro	**2,855,406**	2,356,102
Ermera	**454,835**	443,380
Laclubar	**220,829**	194,314
Liquica	**900,975**	872,029
Lospalos	**771,643**	734,409
Maliana	**1,188,783**	1,022,135
Manatuto	**437,952**	423,618
Maubisse	**411,293**	406,832
Oecusse	**948,970**	796,888
Same	**728,391**	768,769
Suai	**985,376**	1,085,307
Viqueque	**750,490**	709,283
Zumalai	**502,380**	537,854
	18,045,902	16,719,744

8 LOANS AND ADVANCES (continued)

Loans accounts by geographical location:
(by number of account holders)

	31-Dec-21	31-Dec-20
Aileu	**714**	713
Ainaro	**425**	467
Atauro	**318**	308
Atsabe	**321**	306
Batugade	**741**	602
Baucau	**648**	645
Bazartete	**628**	618
Becora	**963**	820
Colmera	**709**	701
Comoro	**1,297**	1,146
Ermera	**390**	391
Laclubar	**283**	267
Liquica	**919**	849
Lospalos	**625**	649
Maliana	**895**	836
Manatuto	**426**	439
Maubisse	**433**	402
Oecusse	**798**	753
Same	**689**	762
Suai	**607**	673
Viqueque	**437**	435
Zumalai	**344**	381
	13,610	13,163

8.1 Impairment of loans and advances

	31-Dec-21	31-Dec-20
	…….USD……	…….USD……
Provision for impairment		
Opening balance	**368,660**	419,179
Bad debts written off	**(60,485)**	(355,577)
Recoveries from written off	**25,200**	-
Charge for the year	**682,718**	305,058
Closing Balance	**1,016,093**	368,660

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.

8.1 Impairment of loans and advances (Cont.)

Ageing Analysis

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

		31-Dec-21	31-Dec-20
		---------USD---------	---------USD---------
Credit Classification	Days past due		
Standard	0	**16,836,891**	16,201,386
Substandard	1-60	**205,323**	151,643
Doubtful	61-90	**30,589**	42,412
Loss	>90	**973,099**	324,303
Closing Balance		**18,045,902**	16,719,744

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

As at 31 December 2021

Branches	**Accounts**				
	Standard	**Sub Standard**	**Doubtful**	**Loss**	**Total**
	…….USD……	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**
Aileu	**635,481**	**12,027**	**-**	**14,524**	**662,032**
Ainaro	**380,920**	**7,442**	**1,111**	**8,145**	**397,618**
Atauro	**232,164**	**2,072**	**-**	**242**	**234,478**
Atsabe	**400,030**	**-**	**-**	**7,813**	**407,843**
Batugade	**795,619**	**936**	**-**	**19,803**	**816,358**
Baucau	**944,370**	**23,977**	**7,394**	**109,262**	**1,085,003**
Bazartete	**730,149**	**280**	**-**	**1,399**	**731,828**
Becora	**1,223,945**	**7,165**	**1,238**	**177,251**	**1,409,599**
Colmera	**984,925**	**19,545**	**4,584**	**134,766**	**1,143,820**
Comoro	**2,474,630**	**54,300**	**10,372**	**316,104**	**2,855,406**
Ermera	**433,557**	**501**	**-**	**20,777**	**454,835**
Laclubar	**213,875**	**1,010**	**-**	**5,944**	**220,829**
Liquica	**894,174**	**3,034**	**244**	**3,523**	**900,975**
Lospalos	**768,989**	**-**	**-**	**2,654**	**771,643**
Maliana	**1,158,156**	**15,615**	**-**	**15,012**	**1,188,783**
Manatuto	**419,388**	**-**	**863**	**17,701**	**437,952**
Maubisse	**409,873**	**-**	**-**	**1,420**	**411,293**
Oecusse	**928,788**	**3,333**	**-**	**16,849**	**948,970**
Same	**710,834**	**8,073**	**40**	**9,444**	**728,391**
Suai	**958,826**	**329**	**1,276**	**24,945**	**985,376**
Viqueque	**652,817**	**34,627**	**2,584**	**60,462**	**750,490**
Zumalai	**485,381**	**11,057**	**883**	**5,059**	**502,380**
Total	**16,836,891**	**205,323**	**30,589**	**973,099**	**18,045,902**

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
Total	16,201,386	151,643	42,412	324,303	16,719,744

9 Property and equipment

December 31, 2021

	Cost				**Accumulated Depreciation**				**Net Book value as at December 31, 2021**	**Rate of depreciation**
	As at January 01, 2021	**Additions**	**Disposals**	**As at December 31, 2021**	**As at January 01, 2021**	**Charge for the period**	**(Disposals)**	**As at December 31, 2021**		
	…….USD……	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	
Buildings on leasehold land	**60,324**	**-**	**-**	**60,324**	**60,324**	**-**	**-**	**60,324**	**-**	**10-33.33%**
Furniture and fixtures and Office equipment	**652,460**	**110,037**		**762,497**	**546,435**	**60,552**		**606,987**	**155,510**	**20-33.33%**
Vehicles	**209,150**	**57,000**	**(40,000)**	**226,150**	**126,374**	**37,290**	**(40,000)**	**123,664**	**102,486**	**20%**
	921,934	**167,037**	**(40,000)**	**1,048,971**	**733,133**	**97,842**	**(40,000)**	**790,975**	**257,996**	

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	As at January 01, 2020	Charge for the year	(Disposals)	As at December 31, 2020		
	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	
Buildings on leasehold land	60,324	-	-	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	466,841	79,594	-	546,435	106,025	20-33.33%
Vehicles	140,491	70,000	(1,341)	209,150	100,429	26,840	(895)	126,374	82,776	20%
	841,181	110,772	(30,019)	921,934	623,050	110,978	(895)	733,133	188,801	

10 Intangible assets

December 31, 2021

	Cost				**Accumulated Amortisation**					
	As at January 01, 2021	**Additions**	**Disposals**	**As at December 31, 2021**	**As at January 01, 2021**	**Charge for the period**	**(Disposals)**	**As at December 31, 2021**	**Net Book value as at December 31, 2021**	**Rate of depreciation**
	…….USD……	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	**…….USD……**	
Computer Software	**43,302**	**-**	**-**	**43,302**	**42,334**	**968**	**-**	**43,302**	**-**	**33.33%**
	43,302	**-**	**-**	**43,302**	**42,334**	**968**	**-**	**43,302**	**-**	

December 31, 2020

	Cost				Accumulated Amortisation					
	As at January 01, 2020	Additions	Disposals	As at December 31, 2020	As at January 01, 2020	Charge for the period	(Disposals)	As at December 31, 2020	Net Book value as at December 31, 2020	Rate of depreciation
	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	
Computer Software	43,302	-	-	43,302	42,334	-	-	42,334	968	33.33%
	43,302	-	-	43,302	42,334	-	-	42,334	968	

(a) Work In Process

	Note	**31-Dec-21**	31-Dec-20
		…..……USD………..	
Opening Balance		**109,950**	149,300
Lease hold improvements		**149,751**	109,950
Less: Write-off of intangible assets		**-**	(149,300)
		259,701	109,950

		Note	31-Dec-21	31-Dec-20
			…….USD……	…….USD……
11	**OTHER ASSETS**			
	Advances to vendors and staff		**25,755**	37,854
	Accrued Interest Receivables		**337,064**	2,900
	Prepayments		**6,362**	24,064
			369,181	64,818
12	**Cash Collateral**			
	Cash Collateral	12.1	**2,734,085**	2,721,112
			2,734,085	2,721,112

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

Cash Collateral balances by geographical location:

	31-Dec-21	31-Dec-20
Aileu	**108,631**	121,282
Ainaro	**62,236**	63,224
Atauro	**37,431**	33,075
Atsabe	**62,134**	59,979
Batugade	**125,865**	111,348
Baucau	**155,113**	171,976
Bazartete	**112,110**	105,400
Becora	**184,002**	173,347
Colmera	**157,737**	173,905
Comoro	**378,190**	360,022
Ermera	**73,165**	71,728
Laclubar	**33,295**	34,921
Liquica	**141,016**	140,007
Lospalos	**126,982**	122,927
Maliana	**193,828**	170,762
Manatuto	**70,839**	70,375
Maubisse	**69,442**	66,963
Oecusse	**145,802**	135,659
Same	**126,900**	136,080
Suai	**166,235**	186,851
Viqueque	**120,593**	123,357
Zumalai	**82,539**	87,925
	2,734,085	2,721,112

13 PAYABLE TO OTHER FINANCIAL INSTITUTIONS

	December 31, 2021					
	Balance as at January 01, 2021	**Loans received during the year**	**Loans repaid during the year**	**Balance as at December 31, 2021**	**Current Loans**	**Non-Current Loans**
European Investment Bank-EIB	**2,227,273**	**-**	**(223,613)**	**2,003,660**	**445,460**	**1,558,200**
KIVA	**611,340**	**212,292**	**(88,684)**	**734,948**	**522,106**	**212,842**
Incofin	**1,985,000**	**1,015,000**	**(1,000,000)**	**2,000,000**	**1,000,000**	**1,000,000**
Triple Jump	**-**	**1,000,000**	**-**	**1,000,000**	**500,000**	**500,000**
Mandiri Bank	**1,560,000**	**5,010,000**	**(4,550,000)**	**2,020,000**	**2,020,000**	**-**
International Financial Corporation-IFC	**1,500,000**	**1,500,000**	**-**	**3,000,000**	**-**	**3,000,000**
Symbiotics S A	**2,000,000**	**-**	**(2,000,000)**	**-**		**-**
	9,883,613	**8,737,292**	**(7,862,297)**	**10,758,608**	**4,487,566**	**6,271,042**

	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	-
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	500000	-	(500,000)	-	-	-
	11,782,323	3,717,112	(5,615,822)	9,883,613	5,216,949	4,666,664

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 that 20% and all other Regulatory Prudential Ratios.

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 mirco-enterpreneurs. 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.

14 SUB ORDINATED DEBT

	December 31, 2021					
	Balance as at January 01, 2021	**Loans received during the year**	**Loans repaid during the year**	**Balance as at December 31, 2021**	**Current Loans**	**Non-Current Loans**
Tuba Rai Metin-TRM	**900,000**	**-**	**-**	**900,000**	**-**	**900,000**
	900,000	**-**	**-**	**900,000**	**-**	**900,000**

	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

	Note	**31-Dec-21** **…….USD……**	**31-Dec-20** …….USD……
15 DEPOSITS			
Demand Deposits		**843,895**	986,045
		843,895	986,045
Deposit balances by geographical location:			
Aileu		**141,144**	119,568
Ainaro		**13,896**	18,152
Atauro		**2,613**	1,199
Atsabe		**4,370**	4,947
Batugade		**60,201**	55,088
Baucau		**56,727**	106,587
Bazartete		**27,148**	10,859
Becora		**39,134**	27,570
Colmera		**12,997**	33,118
Comoro		**70,410**	136,541
Ermera		**33,633**	39,047
Laclubar		**1,819**	1,710
Liquica		**44,990**	29,908
Lospalos		**13,973**	11,928
Maliana		**62,492**	102,134
Manatuto		**33,391**	25,357
Maubisse		**15,702**	10,678
Oecusse		**53,687**	50,436
Same		**49,121**	63,369
Suai		**58,294**	72,185
Viqueque		**37,845**	52,114
Zumalai		**10,308**	13,550
		843,895	986,045
16 OTHER PAYABLES			
Dividend payable		**970,000**	924,176
Sundry creditors and accruals		**717,951**	422,645
		1,687,951	1,346,821

17 COMMITMENTS

The company's commitments are tied up with its office space short term lease arrangements for its head office and branches throughout Timor Leste. The short term lease agreement ranges from USD 300 to USD 9,750 per month.

18 BORROWING FACILITIES

The Organisation has the following borrowing facilities :

	Approved Facility	Used at Reporting Date	Net Available
	…….USD……	…….USD……	…….USD……
2021			
Pre-approved loan facility			
Mandiri Bank (Credit Line Facility)	**2,940,000**	**2,020,000**	**920,000**
IFC (Unsecured Term Loan)	**5,000,000**	**3,000,000**	**2,000,000**
	7,940,000	**5,020,000**	**2,920,000**

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

	Approved Facility	Used at Reporting Date	Net Available
	…….USD……	…….USD……	…….USD……
2020			
Pre-approved loan facility			
Mandiri Bank (Credit Line Facility)	**2,943,094**	**1,560,000**	**1,383,094**
Triple Jump (Unsecured Term Loan)	**1,000,000**	**-**	**1,000,000**
IFC (Unsecured Term Loan)	**5,000,000**	**1,500,000**	**3,500,000**
	8,943,094	**3,060,000**	**5,883,094**

19 CONTINGENT LIABILITIES

The Company had no contingent liabilities as at 31 December 2021.

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 23. 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 means 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	12.65%
Construction/Housing	7.01%
Individuals	0.53%
Manufacturing	0.80%
Others	14.97%
Services	5.05%
Trade & Finance	58.95%
Transport & Communication	0.03%

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 21.

21 MATURITY PROFILE OF FINANCIAL LIABILITIES

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

	Carrying amount	Total Cash Flows	Within 1 month	2 - 6 months	7 - 12 months	1 - 5 years	Over 5 years
	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD……	…….USD…
2021							
Cash Collateral	2,734,085	2,734,085	218,635	1,066,332	874,939	574,179	-
Payables due to other financial institutions	11,658,608	11,658,608	-	261,053	4,226,513	7,171,042	-
Other payables	1,687,951	1,687,951	137,970	1,194,004	130,005	225,972	-
Deposits	843,895	843,895	84,390	135,023	624,482		-
	16,924,539	16,924,539	440,995	2,656,412	5,855,939	7,971,193	-
2020							
Cash Collateral	2,721,112	2,721,112	208,880	1,008,425	840,551	663,257	-
Payables due to other financial inst	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	6,229,922	-

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…
2021						
Cash and cash equivalents		1,594,915	-	-	59,562	1,654,477
Term Deposits in Banks		3,205,373	-	-	-	3,205,373
Loans Portfolio		14,256,261	3,789,641	-	-	18,045,902
Other Assets		-	-	-	369,181	369,181
Cash Collateral		-	-	-	(2,734,085)	(2,734,085)
Saving Deposits		(843,895)	-	-	-	(843,895)
Payables due to other financial		(4,487,566)	(7,171,042)	-	-	(11,658,608)
Other Current Liabilities		-	-	-	(1,687,951)	(1,687,951)
Interest sensitivity gap	-	13,725,088	(3,381,401)	-	(3,993,293)	6,350,394
2020						
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		(5,216,949)	(5,566,665)	-	-	(10,783,614)
Other Current Liabilities		-	-	-	(1,346,821)	(1,346,821)
Interest sensitivity gap	-	9,641,401	(1,491,316)	-	(2,647,670)	5,502,415

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.

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-21	31-Dec-20
	…….USD……	…….USD……
Current Assets		
Cash and cash equivalents	**1,654,477**	1,355,445
Term Deposits in Banks	**3,205,373**	3,203,157
Loans and advances	**14,256,261**	12,644,395
Total Current Assets	**19,116,111**	17,202,997
Current Liabilities		
Cash Collateral	**2,159,906**	2,057,855
Payables due to other financial institutions	**4,487,566**	5,216,949
Other payables	**1,687,951**	1,346,821
Deposits	**843,895**	986,045
Total Current Liabilities	**9,179,318**	9,607,670
Net Current Assets	**9,936,793**	7,595,326

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.

26 IMPACT OF COVID-19 PANDEMIC CRISIS AND GOING CONCERN

For most entities, the COVID-19 crisis has led to more variability and uncertainty underlying the preparation of the financial statements. As the Company engages in delivery of the microfinance loans and other financial activities, the COVID-19 pandemic crisis had 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 included both safety and health measures;

b) Given the social distancing regime and the inability for Company staff and employees to travel, all previously organised events had either been postponed or conducted via video or teleconferencing. The Company allowed its personnel to work either remotely or at the temporary offices on a mix of rotation basis;

c) To assist the financial needs of its customer during Timor-Government imposed lockdown period, the Company have provided its loan customer pay holiday on its principal amount due for 9 months from July 2021 until March 2022. During this period, the loan customer will only pay off their accruing interest;

d) Received credit moratorium from Banco Central De Timor-Leste where it agree to subsidized 60% of the loan customer interest during the pay holiday period, whilst the remaining 40% will be paid by the loan customer; and

e) The Company was granted government financial assistance through Social Security of which 50% of the Social Security due to their employees were paid off by Timor-Leste Government.

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.