USHURU SACCO SOCIETY LIMITED

2017
ANNUAL REPORT

Quality and Highly Efficient Services to Members Since 1970

USHURU
SACCO SOCIETY LIMITED
Huduma Maradufu

our vision

To be a world leading Sacco in empowering members for quality life.

our mission

To provide quality, efficient and affordable products and services while exploiting new technological frontiers.

our objective

To improve the economic lives of our members through provision of quality products and services...

core values

- Simple
- Proficient
- Ethical
- Cohesive

CONTENTS

Board of Directors

Seated
From left to right
Onesmus Nzuki
Isaac Kiprop
Emily Obonyo

Standing
From left to right
Frank Robert
Patrick Chelule
Boaz Chimasia
Samuel Wachiuri
Oliver Sikuku
Dominic Mokaya

Supervisory Committee

William Ndiritu
Chairman

Martin Obara
Secretary Supervisory Committee

Christopher Ngilu
Member

Management Staff

William Pudha
Chief Executive Officer

Edward Obilo
Manager Finance

Cynthia Mwakalama
Manager Credit

Wycliffe Mutuli
Manager IT

Elizabeth Ouko
Manager Audit

USHURU SAVINGS & CREDIT CO-OPERATIVE SOCIETY LIMITED

P.O BOX 52072,
NAIROBI

23rd March 2018

NOTICE

By the Authority of the Ushuru Sacco Board, and in compliance with the Society's By-Laws Rule 42, Notice is hereby given that **the 32nd Annual Delegates Meeting** shall be held on **Saturday the 7th April, 2018 at Acacia Primier Hotel, Kisumu starting at 9.00 a.m.**

AGENDA

1. Reading of the Notice convening 32nd Annual Delegates Meeting and the declaration of the meeting having been properly constituted.
2. Confirmation of the Minutes of the 31st Annual Delegates Meeting held on the 25th March 2017 at Flamingo Beach Resort and Spa, Mombasa.
3. Matters arising there from.
4. Report of the National Chairman.
5. Address by the Guest of Honour.
6. Consider and approve the report of the National Chairman.
7. Receive the Reports of:
   (a) Branch Chairpersons.
   (b) Supervisory Committee.
8. Receive and approve the Auditor's Report and Accounts for the year ending 31st December 2017.
9. Consider and approve the operating Budget for the period covering 1st January 2019 to 31st December 2019, together with amendments to the year 2018 budget.
10. Disposal of the year 2017 surplus.
11. Fixing the Society's Borrowing Powers.
12. Appointment of the Society's Auditor for the financial year 2018.
13. Resolutions.
14. Elections of Board and Supervisory Committee members.
15. Any Other Business for which a notice has been given.

Please observe strict time of this meeting.

FRANK ROBERT.
NATIONAL HON. SECRETARY

USHURU
SACCO SOCIETY LIMITED
Huduma Maradufu

CHAIRMAN'S REPORT

Preamble
The Board of Directors is pleased to present the Annual Report and audited Financial statement for the year ending 31st December 2017.

Economic review
The year 2017 presented the most challenging period for Kenyans in general with the prolonged electioneering period which lasted for more than 4 months and has continued with political uncertainty. Inflation averaged at 7.5 per cent during the third quarter of 2017 compared to an average of 6.3 per cent during a similar quarter in 2016. The rise in inflation was mainly on account of a surge in commodity prices that started in the second quarter of 2017 and continued into the period under review. This was principally attributable to several factors including political uncertainty that prevailed for the better part of the third quarter of 2017. Weighted interest rates on commercial banks loans and advances declined to an average of 13.67 per cent in the third quarter of 2017 from 16.54 per cent during a similar quarter in 2016. This was due to the capping of interest rates that started in September 2016. The Central Bank Rate (CBR) was maintained at 10.0 per cent throughout the quarter.

The Co-operative Sector Overview
Despite the prolonged electioneering period the Society did not have major fluctuations on the loan uptake meaning that our competitiveness did not suffer any damage. The Society experienced higher withdrawal of membership compared to the previous year which is attributable to many members reaching the retirement age, while the other members opted out as they could not afford credits and minimal cases could be attributable to the prevailing uncertainty and heated political tension hence members are shelving their investment plans. However, it is wakeup call for the SACCO sector to be more proactive by coming up with innovative ways of income generation if the competitive edge is to be maintained.

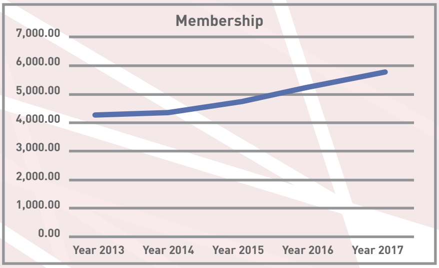
Performance overview
The Sacco has continued to witness a steady and sustainable growth in the past one year despite the challenges outlined above. Interest on loans and advances increased by 9.75 % compared to the previous year. The SACCO recorded 12.9% increase in total assets with members' deposit and loans growing by 9.8 % and 10 % respectively. Interest on members' deposits proposed went up by 11.6 % while proposed dividend on share capital grew by 50%.
The Society also witnessed an improved core capital as it strives to meet the statutory limits. This follows the resolution passed at the Delegates meeting to increase the members share capital from Kshs. 10,000 to Kshs. 30,000 which gave a boost to share capital and as a result the Society registered an abnormal growth of 152%.

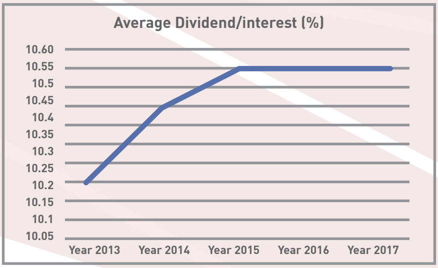
Future Outlook
The financial sector in general projects a growth trajectory in 2018, the political tension notwithstanding. This therefore means that with strategic positioning, we stand to reap from the positive turnaround. I wish to reiterate that we commit to be more innovative in terms of services offered, bringing more members on Board and employing Just in Time approach in cashing on various opportunities available to us.
In conclusion, I want to take this opportunity to extend special thanks to our members for your continued support as well as the Board of Directors, the supervisory committee, delegates and members of staff for helping us keep the promise to our members.

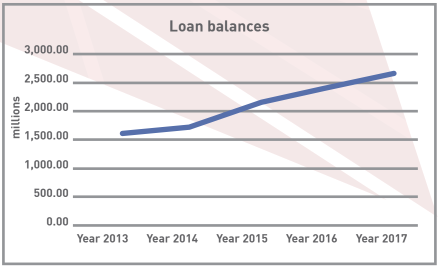
Isaac Kiprop
National Chairman

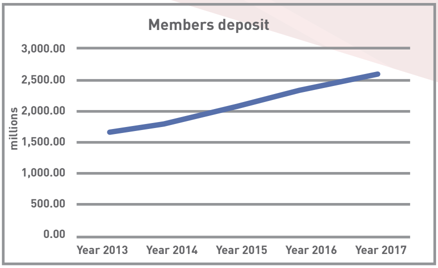
USHURU SACCO SOCIETY LIMITED
Huduma Maradufu

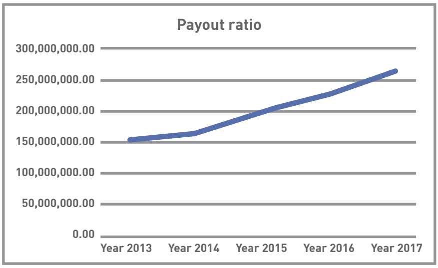
FIVE YEAR PERFORMANCE REVIEW

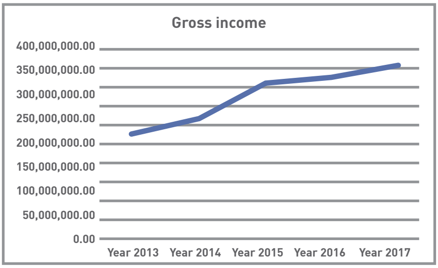


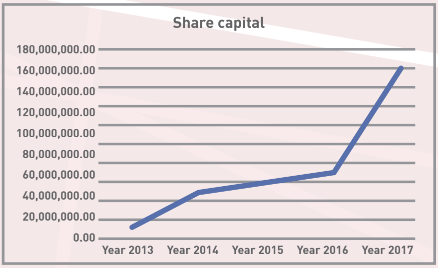


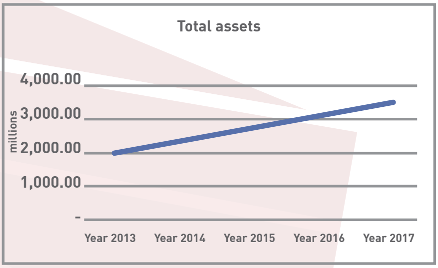


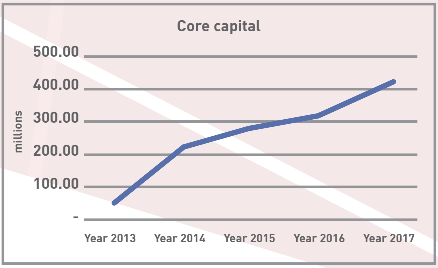


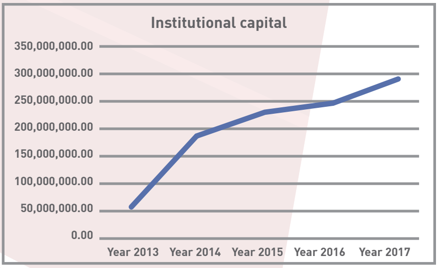












CORPORATE GOVERNANCE REPORT

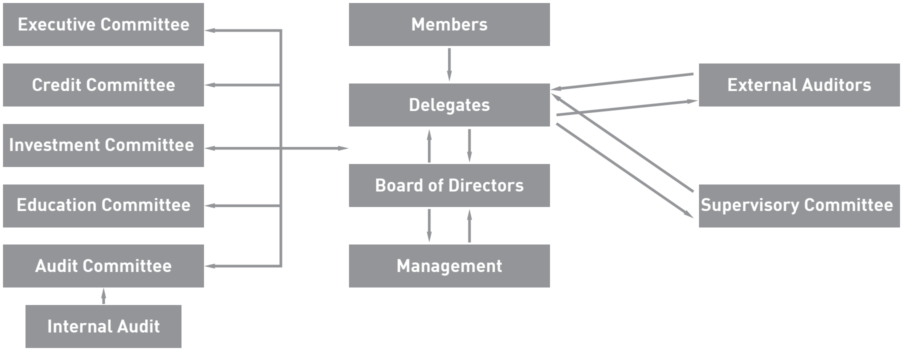
The Board of Directors is responsible for the corporate governance practices of the Society. This report sets out the main practices in operation during the year under review, unless otherwise indicated. The Society is committed to business integrity and professionalism in all its activities. Ushuru Sacco has recognized the importance of effective corporate governance structure and takes all necessary steps to implement policies, procedures and systems to ensure full compliance with the applicable statutes and regulations, the requirements of all regulatory bodies and international best practise.

Supreme Authority of the Sacco

Section 41 (a) of the Society By-laws, provides that the supreme authority (of the Sacco) is vested in the annual delegates meeting (ADM) which is constituted of delegates elected by the general membership. The delegates in turn elect amongst themselves a Board of Directors that is accountable to the members and other stakeholders through the Annual Delegates Meeting (ADM). The Delegates Meeting is presided over by the Chairman in his absence the Vice Chairman. All business at the Delegates Meeting is recorded in a minute book whose final record and resolutions are signed by the Chairman and the Secretary of the Board. The members appoint external auditors each year.

GOVERNANCE STRUCTURE

The key players in the corporate governance structure of Ushuru Sacco is as shown in the chart below.



The Board of Directors, structure, powers and functions

The Board of Directors is the governing authority of the Sacco and it consists of nine members who include the Chairman, Vice Chairman, Honorary secretary and the Treasurer. The Chief Executive Officer (CEO) is an Ex-officio member of the Board. The powers and functions allotted to the Board are stipulated in the Sacco Act, rules and By-laws of the Sacco. The Board meets each month to deliberate on management accounts and to discuss reports from each sub-committee besides dealing with any strategic issues and opportunities for the SACCO in the course of its business.

Board appointment and induction

Election to the Board is through a vetting and nomination process handled by a nomination committee leading to the Annual delegates meeting where democratic elections are held to appoint the winning candidates to the Board. The nomination committee consist of a lawyer from the Society's panel of lawyers, the Commissioner of Co-operatives or his representative, the Chief Executive Officer or his representative. The committee vets all the nominees to ensure they meet all the set criteria for appointment as Directors.

Once elected at the annual delegates meeting, a comprehensive induction for new Directors is done. This is to provide them with the necessary information and overview of the Society. The induction also assist them to understand the Society's operations and to appreciate the challenges and issues the Society faces in achieving its objectives. The induction covers subject matters, amongst others, concerning the Society's business and strategy, work processes and Board Committees, and the duties and responsibilities of Directors of the SACCO.

Board skills development and succession planning

The Board recognizes the importance of continuing education for its Directors to ensure they are equipped with the necessary skill and knowledge to perform their functions and meet the challenges of the Board. Through a Structured Training Programme for Directors, each Director shall attend at least one training during the financial year. For the year under review, all the

Board members complied with the aforesaid internal policy by attending various training workshops on issues relevant to the SACCO, which were organised externally. To ensure good succession planning, a third of the directors retire annually but the retirees are eligible for re-election.

Supervisory Committee

The Supervisory Committee members are elected by and from the members of the Annual Delegates Meeting and it consist of three members. The members of the Committee retire on rotational basis. They are charged with safeguarding members fund by ensuring that proper policies are in place and the internal control system is adequate. No member of the Board of Directors may be elected to the Supervisory Committee.

Board committees

In order to efficiently drive its corporate governance mandate, the Board constituted specific committees which work independently of each other reporting directly to the Board. The Committees purpose, composition, structures, duties, responsibilities and reporting lines are defined separately in the By-laws. The mentioned committees are as follows;

1. Executive Committee - Chaired by Mr. Isaac Kiprop
2. Credit Committee - Chaired by Mr. Boaz Chimasia
3. Education Committee - Chaired by Mr. Onesmus Nzuki
4. Investment Committee - Chaired by Mr. Samuel Wachiuri
5. Audit Committee - Chaired by Mr. Patrick Chelule

Executive Committee

This consists of the Chairman, Vice Chairman, Secretary and Treasurer. Their function is ensuring execution of Board decisions and providing general direction for the Society. This is in addition to those duties as prescribed in the By-laws.

Credit Committee

The credit committee is made up of three members drawn from the Board. The committee is entitled to inquire carefully into the character and financial conditions of each loan applicant, and the guarantors, to ascertain ability of the applicant to repay the loan fully and promptly.

Education Committee

This committee consists of three members of the Board with the vice-chairman as the head of the committee. This committee is responsible for organizing educational tours, seminars and training to both members of the BOD and staff.

Investment Committee

Investment committee also constitutes three members from the Board whose primary roles is to determine investment projects and savings the society can engage in or trade. This committee is chaired by the National Treasurer of the Society.

Audit Committee

This committee ensures Oversight and review of financial, audit and internal control issues, compliance to regulations, policies and best practices and it consists of not more than three members appointed from the Board, one of whom is to be conversant with financial and accounting matters. The executive officials are not members of the Audit Committee.
In the year 2017, the Board also commissioned specific adhoc committees to handle matters

arising but which were necessary for the continuous improvement of the societies operations. These included the Staff advisory committee chaired by Mr. Frank Robert and the Policy and Strategic Committee chaired by Mr. Onesmus Nzuki.

Staff Advisory Committee
The committee serves in advisory capacity to the Board on issues, concerns and opportunity regarding the staff of the Society. Particularly, for 2017 the committee played an important role of carrying out a staff evaluation in order to identify gaps, this was specifically targeted to the actualization of the 2018-2022 strategic plan which outlines performance contracting as one of its achievement.

Policy Committee
The committee ensures continuous review of all the Society's rules, regulations and policies to align it with the amended legislations and also industry's best practices.

Board meetings and attendance
The full Board meets regularly, with at least twelve Monthly meetings a year, and serves a notice indicating a schedule of matters reserved for discussion. The Directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, compliance and governance issues. A careful balance of formal andinformal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The Directors have full access to corporate information and sufficient detail to enable a productive and open discussion. There
is diversity in the Board in terms of professional competence which ensures that the level of debate is both detailed and of a high technical standard.

The table below is a summary of the attendance record of the Directors at the full and the Board committee meetings.

	Board Meeting		Credit Committee		Education Committee		Supervisory Committee		Investment Committee		Audit Committee		Executive Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Isaac Kiprop	12	12											12	12
Frank Robert	12	11							4	4			12	12
Onesmus Nzuki	12	12			4	4							9	8
Samuel Wachiuri	12	11							4	4			9	9
Domnic Mokaya	12	11	12	9	4	4								
Emily Obonyo	9	8			3	4					3	3		
Patrick Chelule	9	8	9	9							3	3		
Boaz Chimasia	9	8	9	9							3	3		
Oliver Sikuku	12	11							4	4				
William Ndiritu							4	4						
Christopher Ngilu							4	4						
Martin Obara							3	3						

Note:
(a) Number of meetings convened during the year when the director was in office
(b) Number of meetings attended by the director during the year

Management Staff

The Society management is comprised of the Chief Executive Officer (CEO) and Heads of Departments. The CEO is an employee of the Sacco whose work is to manage day to day activities of the society on behalf of the Board of. The CEO and other staff members are appointed by the Board of Directors in accordance with the Society's Human Resource (HR)
policy. The CEO attends all Board and General Meetings as an ex-official member and is a signatory to all society documents. He is responsible to the Board and ensures implementation of and adherence to the policies, procedures and standards in the Sacco. He is also responsible for all staff matters, code of conduct and compliance with the relevant Acts, Regulations, Rules and By-laws.

Procurement

Procurement in the Sacco is guided by the procurement laws and best practice. The Sacco has a Tender Committee independent of the Board to handle procurement matters in the Sacco and they also meet to open and evaluate tenders as part of the procurement process. The Committee draws its membership from the Heads of Departments.

Conflicts of interest

All Directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly, in any business that competes or conflicts with the Society's business. The Society has established a robust process requiring Directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Honourable Secretary.

Internal controls

The Management recognises its role to grow shareholder value while adhering to approved risk assessment procedures and limits. This is done by identifying risks that may inhibit the Society from achieving its objectives, analysing those risks, avoiding certain risks and implementing plans for mitigating risks that remain.
The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations and enhance resilience to external events.
The effectiveness of the Society's internal control system is reviewed regularly by the Board through a Management framework and the Internal Audit function.
The Internal Audit function monitors compliance with policies and standards and the effectiveness of internal control structures of the Society through its programme of audits. The work of the Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee.
The Society's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, liquidity risk and credit risk. The Board has established a management framework that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.
The performance of the Society's businesses is reported to the management and the Board. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

Code of Conduct

The Society has a Code of Conduct, relating to the lawful and ethical conduct of business which is supported by the Society's core values. All Directors, management and employees are required to observe the Code of Conduct and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators.

Communication with members

The Board recognizes the importance of good communications with all members and on an annual basis, the Society organizes members' education to accomplish this mandate. Other means of communication used by the Society includes;
Circulars, notices, bulk sms, email, and Social media platform.

Going concern

The Board confirms that it is satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.
The Directors are responsible for the preparation and presentation of the financial statements of the Society which comprise the Statement of Financial Position, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.
The Directors accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Employment equity

The Society is committed to the creation of an organisation that supports the equality of all employees and is committed to the elimination of any form of discrimination in the work place. The Society has in place a comprehensive Human Resource policy which covers recruitment, staff development, retention and cultural diversity. The Society ensures that all employees are competent to perform their specific duties within a given time frame hence it facilitates Continuous Development Programme by sponsoring employees for annual trainings.

Remuneration Policy

The remuneration for the Directors consists of sitting allowance earned Monthly and paid quarterly, annual honoraria, travelling allowances for attending Board and committee meetings. Information and disclosures relating to the Directors remunerations and salary emoluments paid to key management staff are contained in the financial statements.
The Society endeavours to review and approve competitive remuneration packages, which are designed to attract, retain and motivate staff.

Corporate Social Responsibility (CSR)

The Board is conscious of its Social obligation to conduct the affairs of the society in a manner that cherish ethical values, compliance to existing laws and regulations and concern to the community in general. The society engages in social activities on annual basis to accomplish this endeavour. Every year, the Society engages in various Social activities which includes tree planting, internship programmes and visits to various institution normally done during the December holidays to share the cheer with the less fortunate. In the Financial Year 2017, the Society managed to carry out visits in every branch as shown in the photos below.

CSR - Nairobi Branch at Hekima Place (Kiserian)

CSR - Eldoret Branch at Eldoret Rescue Center

Kisumu Branch at Mango Tree Children's Home

Mombasa Branch at Portreitz Rehabilitation Center

SOCIETY INFORMATION

BOARD OF DIRECTORS

:Mr. Isaac Kiprop - National Chairman
:Mr. Onesmus Nzuki - National Vice Chairman
:Mr. Frank Robert - National Hon. Secretary
:Mr. Samuel Wachiuri - National Treasurer
:Mr. Domnic Mokaya - Member
:Mr. Oliver Sikuku - Member
:Ms. Emily Odhiambo - Appointed 25 March 2017
:Mr. Boaz Chimasia - Appointed 25 March 2017
:Mr. Patrick Chelule - Appointed 25 March 2017
:Mr. William Pudha - Chief Executive Officer
:Mr. Walter Murabula - Retired 25 March 2017
:Mr. Mark Odhiambo - Retired 25 March 2017
:Ms. Clemence Wawuda - Retired 25 March 2017

SUPERVISORY COMMITTEE

: Mr. William Ndiritu - Chairman
: Mr. Martin Obara - Secretary - Appointed 25 March 2017
: Mr. Christopher Ngilu - Member
: Mr. Joab Muniala - Retired 25 March 2017

REGISTERED OFFICE

: Ushuru Co-operative Savings and Credit Society Limited
: Forodha House 2nd Floor
: P.O. Box 52072, 00200
: NAIROBI

: Telephone: 020-2719660
: Email: ushurusacco@africaonline.co.ke

INDEPENDENT AUDITOR

: PKF Kenya
: Certified Public Accountants
: P.O. Box 14077, 00800
: NAIROBI

PRINCIPAL BANKERS

: Co-operative Bank of Kenya Limited
: Ukulima House Branch
: NAIROBI

LEGAL ADVISORS : The panel of lawyers available at the head office

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2017 which show the society's state of affairs.

Incorporation
The society is incorporated in Kenya under the Co-operative Societies Act, Cap. 490 and is domiciled in Kenya.

Principal activity
The principal activity of the society continues to be receiving savings from and provision of loans to its members.

Business review
The total interest income of the society increased from Shs. 296.2 million to Shs. 324.1 million. The increase is directly attributed to growth in the loan book to members compared to prior year. Surplus before tax decreased from Shs. 27.4 million to Shs. 16.2 million compared to prior year. This is attributed to increase in interest on member deposits, reduced interest on special products and forgone opportunity cost on huge capital commitments on the the new building offsetting the increase in interest income.

As at 31 December 2017, the net asset position of the society was Shs. 421.1 million compared to Shs. 310.4 million as at 31 December 2016.

Principal risks and uncertainties
The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the society's products. The society's strategic focus is to enhance revenue growth whilst maintaining growth, the success of which remains dependent on overall market conditions.

In addition to the business risks discussed above, the society's activities expose it to a number of financial risks including credit risk, cash flow and foreign currency risk and liquidity risk as set-out in Note 21 of the financial statements.

Share capital
The issued and paid up share capital of the society was increased during the year from Shs. 64.6 million to Shs. 163.0 million

Dividends and interest
The management committee recommends payments of first and final dividend of 11% (2016: 12%) on share balance. They also recommend 10.5% (2016: 10.5%) on weighted members deposit and 9% (2016: 9%) on special savings.

Board of directors
The directors who held office during the year and to the date of this report are shown on page 1.

Statement as to disclosure to the society's auditor

With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the society's auditor is unaware; and

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

Terms of appointment of the auditor

The society's auditor, PKF Kenya, continues in office in accordance with the Co-operative Societies Act, Cap. 490. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

Signature.............................. date 13/03/2018

ISAAC KIPROP - NATIONAL CHAIRMAN

FINANCIAL AND STATISTICAL INFORMATION

Membership		As at 31 December 2017 Numbers	2016 Numbers
At start of the year		5,390	4,817
Members who joined within the year		662	738
Withdrawals during the year		(106)	(165)
At end of the year		5,946	5,390
Comprising:	- Active	5,889	5,207
	- Dormant	57	183
		5,946	5,390
Number of employees		17	16

Financial	2017 Shs	2016 Shs
Total assets	3,461,176,885	3,064,675,481
Members' deposits	2,746,532,162	2,501,944,562
Loans and advance to members	2,680,471,466	2,435,313,623
Provision for loan losses	1,169,371	1,781,711
Investments	41,604,671	35,737,951
Total revenue	367,929,354	342,183,250
Total interest income from members	311,798,741	284,110,750
Total expenses	354,499,681	318,543,861
Investment shares	163,036,917	64,608,002
Statutory reserve	39,226,845	36,540,910
RMF reserve account	67,204,946	67,204,946
Core capital	421,086,142	310,377,216
Institutional capital	258,049,225	245,769,214

Key ratios:	2017 %	2016 %
Capital adequacy ratios		
Core capital/Total assets	12.2%	10.1%
Core capital/Total deposits	15.3%	12.4%
Institutional capital/Total assets	7.5%	8.0%
Liquidity ratio		
Liquid assets/Total deposits and short-term liabilities	6%	12%

Operating efficiency/loan quality ratios

Total expenses/Total revenue	96%	93%
Interest to members deposits/Total revenue	72%	70%
Interest rate on members' savings	10.5%	10.5%
Dividend rate on members share capital	11%	12%
Total delinquent loans/Gross loan portfolio	0.04%	0.07%

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Co-operative Societies Act, Cap. 490 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society as at the end of the financial year and of its surplus or deficit for that year. It also requires the directors to ensure that the society keeps proper accounting records that are sufficient to show and explain the transactions of the society; that disclose, with reasonable accuracy, the financial position of the society and that enable them to prepare financial statements of the society that comply with the International Financial Reporting Standards and the requirements of the Co-operative Societies Act, Cap. 490. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Co-operative Societies Act, Cap. 490. They also accept responsibility for:

i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii. Selecting and applying appropriate accounting policies; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2017 and of the society's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act, Cap. 490.

In preparing these financial statements the directors have assessed the society's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the society will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the board of directors on 13/03 2018 and signed on its behalf by:

_______________ **ISAAC KIPROP - NATIONAL CHAIRMAN**

_______________ **SAMUEL WACHIURI - NATIONAL TREASURER**

_______________ **FRANK ROBERT - NATIONAL HON SECRETARY**

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF USHURU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

Opinion

We have audited the financial statements of Ushuru Savings and Credit Co-operative Society Limited (the society) set out on pages 10 to 43, which comprise the statement of financial position as at 31 December 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the society's financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Co-operative Societies Act, Cap. 490.

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 statements section of our report. We are independent of the society in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

The directors exercise significant judgement in classification of loans and advances to customers into the various credit grades as described in note 21(b) to the financial statements as well as the level of impairment provisions necessary for each grade of loan which is based on the society's past experience and reference to the regulatory guidelines and industry standards. Because of the significance of these judgements and the quantum of loans and advances, the audit of loan impairment provisions is a key audit matter. Further details of the loans and advances balances and impairment provisions are included in note 8 to the financial statements.

Our audit procedures included testing the model used by the directors in classifying loans and advances into their respective credit grades which included understanding the classification criteria and reviewing this for consistency with the society and industry experience. We tested a sample of loans and advances (including loans that had not been identified by management as impaired) to form our own assessment as to whether indicators of impairment were present. For a sample of impaired loans we tested the extraction of data used in the models, the estimation of the future expected cash flows from the members based on historic industry experience including realisation of collateral held, primarily represented by current deposits, which we tested against records of member deposits and recalculated the impairment provisions.

Other information

The directors are responsible for the other information. The other information comprises the statement of directors responsibilities that comprise the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and the requirements of the Co-operative Societies, Act Cap. 490 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the society's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Audinting and Co-operative Societies, Act Cap. 490 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

PKF

- 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 society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner responsible for the audit resulting in this report of the independent auditor is CPA Patrick Kuria - P/No. 2045.

PKF Kenya

Certified Public Accountants
Nairobi

March 13, 2018 141/18

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 Shs	2016 Shs
Revenue			
Interest income:			
- Interest on loans and advances	2 (a)	311,798,741	284,110,750
- Other interest income	2 (b)	12,267,295	12,070,915
Total interest income		**324,066,036**	**296,181,665**
Interest expenses		(266,538,387)	(238,750,400)
Net interest income		**57,527,649**	**57,431,265**
Other operating income	2 (d)	43,863,318	46,001,585
Impairment charge on loan and advances	8	(170,915)	(1,781,711)
Governance expenses	24	(28,799,500)	(25,804,097)
Administrative expenses	25	(48,830,314)	(43,729,012)
Other operating expenses	26	(7,397,218)	(4,704,132)
Surplus before tax		**16,193,020**	**27,413,898**
Income tax expense	5	(2,763,347)	(3,774,509)
Surplus for the year		**13,429,673**	**23,639,389**
Other comprehensive income:			
Items that may be reclassified subsequently to surplus or deficit:			
- Fair value gain/(loss) on available for sale financial assets	3	5,647,799	(3,824,868)
Total comprehensive income		**19,077,472**	**19,814,521**
Dividend:			
Proposed final dividend for the year		11,683,444	7,752,960

The notes on pages 15 to 43 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 Shs	2016 Shs
ASSETS			
Cash and bank balances	6	175,051,468	310,023,823
Receivables and prepayments	7	173,768,023	62,225,645
Loans and advances to members	8	2,679,302,095	2,433,531,912
Financial assets	9	41,604,671	35,737,951
Investment property	10	384,540,809	189,385,523
Assets held-for-sale	11	-	22,000,000
Property and equipment	12	2,822,655	5,137,585
Intangible assets	13	1,642,030	3,001,987
Tax recoverable	4	2,445,134	3,631,055
Total assets		**3,461,176,885**	**3,064,675,481**
LIABILITIES			
Other payables	14	27,020,194	13,603,303
Interest due	15	266,538,387	238,750,400
Member deposits	16	2,746,532,162	2,501,944,562
		3,040,090,743	**2,754,298,265**
SHAREHOLDERS' FUNDS			
Share capital	17	163,036,917	64,608,002
Statutory reserve	18 (i)	39,226,845	36,540,910
Retained earnings	18 (iii)	105,254,452	104,258,659
RMF reserve fund	18 (iv)	67,204,946	67,204,946
Revaluation reserve	18 (v)	980,000	1,960,000
Fair value reserve	18 (vi)	33,699,538	28,051,739
Proposed dividend	18 (vii)	11,683,444	7,752,960
		421,086,142	**310,377,216**
Total liabilities and capital		**3,461,176,885**	**3,064,675,481**

REGISTERED
SEC. 25 (9) CO-OPERATIVE SOCIETIES
ACT. CAP 490(2004)
14 MAR 2018
Makellam.
COMMISSIONER FOR
CO-OPERATIVE DEVELOPMENT

The financial statements on pages 10 to 43 were approved and authorised for issue by the board of directors on 13/03 2018 and were signed on its behalf by:

ISAAC KIPROP - NATIONAL CHAIRMAN

SAMUEL WACHIURI - NATIONAL TREASURER

FRANK ROBERT - NATIONAL HON SECRETARY

The notes on pages 15 to 43 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017	Notes	Share capital Shs	Statutory reserve Shs	Retained earnings Shs	RMFreserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Total Shs
At start of year		**64,608,002**	**36,540,910**	**104,258,659**	**67,204,946**	**1,960,000**	**28,051,739**	**7,752,960**	**310,377,216**
Total comprehensive income:		-	-	13,429,673	-	-	5,647,799	-	19,077,472
Transfer of excess depreciation	18 (iii)	-	-	980,000	-	(980,000)	-	-	-
Transfer to statutory reserve	18 (i)	-	2,685,935	(2,685,935)	-	-	-	-	-
Tax adjustment - 2016		-	-	(1,447,743)	-	-	-	-	(1,447,743)
Write back - provision for bad debts		-	-	1,414,383	-	-	-	-	1,414,383
Write back - interest overprovison		-	-	609,022	-	-	-	-	609,022
Depreciation written back		-	-	360,500	-	-	-	-	360,500
Transactions with owners:									
Issue of investment shares	17	98,428,915	-	-	-	-	-	-	98,428,915
Dividends:									
- Paid 2016	18 (vii)	-	-	-	-	-	-	(7,733,623)	(7,733,623)
- 2016 overprovision		-	-	19,337	-	-	-	(19,337)	-
- Proposed 2017	18 (vii)	-	-	11,683,444)	-	-	-	11,683,444	-
At end of year		**163,036,917**	**39,226,845**	**105,254,452**	**67,204,946**	**980,000**	**33,699,538**	**11,683,444**	**421,086,142**

The notes on pages 15 to 43 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016	Notes	Share capital Shs	Statutory reserve Shs	Retained earnings Shs	RMFreserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Total Shs
At start of year		**52,998,978**	**31,813,032**	**91,841,530**	**67,204,946**	**2,940,000**	**31,876,607**	**6,359,877**	**285,034,970**
Total comprehensive income:		-	-	23,639,389	-	-	(3,824,868)	-	19,814,521
Transfer of excess depreciation		-	-	980,000	-	(980,000)	-	-	-
Transfer to statutory reserve		-	4,727,878	(4,727,878)	-	-	-	-	-
Write back interest overprovison	18 (i)	-	-	263,436	-	-	-	-	263,436
Transactions with owners:									
Issue of investment shares		11,609,024	-	-	-	-	-	-	11,609,024
Dividends:	17								-
- Paid 2016		-	-	-	-	-	-	(6,344,735)	(6,344,735)
- 2016 overprovision	18 (vii)	-	-	15,142	-	-	-	(15,142)	-
- Proposed 2016	18 (vii)	-	-	(7,752,960)	-	-	-	7,752,960	-
At end of year		**64,608,002**	**36,540,910**	**104,258,659**	**67,204,946**	**1,960,000**	**28,051,739**	**7,752,960**	**310,377,216**

The notes on pages 15 to 43 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

STATEMENT OF CASH FLOWS

	Notes	2017 Shs	2016 Shs
Cash from operating activities			
Interest income	2 (a)	311,798,741	284,110,750
Other interest income	2 (b)	12,267,295	12,070,915
Other operating income	2 (d)	41,519,281	42,716,603
Interest payments	2 (c)	(238,141,378)	(208,696,397)
Payment to employees and suppliers		(73,658,770)	(68,452,543)
Net cash from operating activities		53,785,169	61,749,328
Cash (used in) loans and advances and other receivables			
Advances to members	8	(1,662,358,578)	(1,518,284,471)
Repayments	8	1,416,417,480	1,235,471,337
Increase in receivables and prepayments		(110,127,995)	(5,489,055)
Cash from deposits and other payables			
Deposits received	16	711,270,613	490,775,557
Withdrawals	16	(466,683,013)	(183,003,194)
Increase in other payables		8,720,691	5,034,210
Net cash (used in)/from operating activities before			
Income taxes		(48,975,633)	86,253,712
Income tax paid	4	(3,025,169)	(9,216,875)
Net cash (used in)/from operating activities		**(52,000,802)**	**77,036,837**
Investing activities			
Purchase of property and equipment	12	(175,355)	(1,382,923)
Purchase of intangible assets	13	(382,336)	(4,500,730)
Purchase of investment property	10	(194,712,386)	(58,084,186)
Purchase of financial assets	9	(218,921)	-
Proceeds from disposal of assets held for sale	11	19,594,000	-
Dividends received	2(d)	2,228,153	2,384,982
Net cash (used in) investing activities		**(173,666,845)**	**(61,582,857)**
Financing activities			
Proceeds from shares issue	17	98,428,915	11,609,024
Dividend paid		(7,733,623)	(6,359,877)
Net cash from financing activities		**90,695,292**	**5,249,147**
(Decrease)/increase in cash and cash equivalent		(134,972,355)	20,703,127
Cash and cash equivalents at start of year		310,023,823	289,320,696
Cash and cash equivalents at end of year	6	**175,051,468**	**310,023,823**

The notes on pages 15 to 43 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

NOTES

1. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value butare not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

The financial performance of the society is set out in the director's report and in the statement of comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 21.
Based on the financial performance and position of the society and its risk management policies, the directors are of the opinion that the society is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

USHURU SACCO SOCIETY LIMITED
Huduma Maradufu

New and amended standards adopted by the society
A number of new and revised standards and interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements.

New standards, amendments and interpretations issued but not effective
At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) that is effective for annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.
- IFRS 9 'Financial Instruments' (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.
- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through surplus or deficit or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through surplus or deficit that is at is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in surplus or deficit), unless this creates an accounting mismatch.
- In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.
- In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.
- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18).It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.
- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

The directors expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) Critical estimates and judgement

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Impairment losses on loans and advances**

The society reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income , the society makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a society, or national or local economic conditions that correlate with defaults on assets in the society. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for non-performing loans and advances. The values of securities are discounted using the International Financial Reporting Standards. International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement' is based on historical experience and other relevant factors.

- Useful lives of property and equipment and intangible assets

Management reviews the useful lives and residual values of the items of property and equipment and intangible assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

- Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

The valuation of financial instruments is described in more detail in Note 9.

c) Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the performance o services, in the ordinary course of business.
The society recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the society and when the specific criteria have been met for each of the society's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The society bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

Interest income and expense
Interest income is accrued by reference to time in relation to the principal outstanding using theeffective interest rate applicable.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receiptsthrough the expected life of the financial instrument or, when appropriate, a shorter period to the netcarrying amount of the financial asset or financial liability. When calculating the effective interest rate, the society estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and allother premiums or discounts.

Fee and commission income
Fees and commission income, including account servicing fees and mobile banking commisions are generally recognised on an accrual basis when the service has been provided.

Other income
i) Entrance fee is recognised when a new member joins the society
ii) Dividend is recognised when the right to recieve income is established. Dividend are reflected as a component of other operating income based on the underlying classification of the equity instrument.
iii) Rental income is accrued by reference to time on a straight line basis over the lease term.
iv) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

d) Property and equipment
All property and equipment is initially recorded at cost and thereafter stated at historical cost lessdepreciation except as stated below. Historical cost comprises expenditure initially incurred to bringthe asset to its location and condition ready for its intended use.

Motor vehicles are subsequently shown at market value, based on periodic valuations less subsequent depreciation.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.
Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously expensed. Decreases that offset previous increases of the same asset are charged to other comprehensive income; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the retained earnings to revaluation reserve.

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

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

	Rate (%)
Motor vehicle	25
Computers and accessories	33.3
Furniture and fittings	12.5

The assets' residual values and lives are reviewed, and adjusted if appropriate at each balance sheet date.

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

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

e) Investment property
Investment property is long-term investments in land and buildings that are not occupied substantially for own use. Investment property is initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date Changes in fair value are recorded in statement of comprehensive income.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Gains and losses on disposal of investment property is determined by reference to their carrying amount and are taken into account in determining operating surplus.

f) Intangible assets - computer software

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Accounting software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straightline basis at the rate of 33.33% per annum.

g) Impairment of non-financial assets and intangible assets other than goodwill

At the end of each reporting period, Society reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

h) Assets held-for-sale

Non-current assets are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

i) Financial instruments

Financial assets and financial liabilities are recognised when the society becomes a party to the contractual provisions of the instrument. Management determines all classification of financial instruments at initial recognition.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through surplus or deficit. Financial assets carried at fair value through surplus or deficit are initially recognised at fair value and transaction costs are expensed in surplus or deficit.

The society's financial assets fall into the following categories:
- **Available-for-sale:** financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12 months of the reporting date. Subsequent to initial recognition, they are carried at fair value with gains or losses are recognised in other comprehensive income.

Interest on available-for-sale securities is calculated using the effective interest method and is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are also recognised in the statement of comprehensive income as part of other income when the society's right to receive payments is established.
- **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the statement of financial position date. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of comprehensive income.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the society commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the society has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of comprehensive income under administrative expenses when there is objective evidence that the society will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are recognised in the statement of comprehensive income. For available for sale assets cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of comprehensive income in the period.

Subsequent recoveries of amounts previously written off/impaired are credited to the statement of comprehensive income and for available for sale assets in other comprehensive income in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in the statement of comprehensive income are determined by reference to their carrying amount and are taken into account in determining operating surplus. On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recycled to the statement of comprehensive income. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retianed earnings.

Management classifies financial assets as follows:

Quoted investments and unquoted shares are classified as 'available-for-sale' financial instruments. The fair values of quoted investments are based on current bid prices at the reporting date. Where fair values cannot be reliably measured (unquoted investments), the society establishes fair value by using valuation techniques or carries these investments at cost less provision for impairment.

Cash in hand and balances with financial institutions, loan and advances, other receivables and tax recoverable are classified as loans and receivables and are carried at amortised cost.

Financial liabilities
The society's financial liabilities which include other payables, interest due, member deposits and tax payable fall into the following category:

- Financial liabilities measured at amortised cost: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the statement of comprehensive income under finance costs under the effective interest rate method.

All financial liabilities are classified as current liabilities unless the society has an unconditional rightto defer settlement of the liability for at least 12 months after the reporting date.
Financial liabilities are derecognised when, and only when, the society's obligations are discharged, cancelled or expired.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) Accounting for leases

The society as lessee
Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

The society as lessor
Assets leased to third parties under operating leases are included under investment property the statement of financial position.

Gains and losses on disposal of leased assets are determined by reference to their carrying amount and are taken into account in determining operating surplus.

k) Taxation
Current tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation applicable to the society.

In particular under section 19A (4) of the Income Tax Act, the society being a designated society that carries on business as a Credit and Savings Co-operative Society, income tax only arises on interest income from non-members and any other income not arising from activities relating to advance or deposit from members.

l) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

m) Investment shares
Member interest are classified as equity where the entity has an unconditional right to refuse redemption of the members' shares.

All financial liabilities are classified as current liabilities unless the society has an unconditional right redemption of members' shares.

n) Reserves
- **Statutory reserve**

Transfers are made to the statutory reserve fund at a rate of 20% of net operating surplus after tax in compliance with the provision of section 47 (1 and 2) of the Co-operative Societies Act, Cap 490. This reserve is not distributable.

- **Fair value reserve**

The fair value reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in the statement of comprehensive income. Where a revalue financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the statement of comprehensive income.

Gains and losses transferred from equity into statement of comprehensive income during the period are included in other gains and losses. The amounts in this reserve is not distributable.

- **Retained earnings**

This comprises retained earnings and is distributable.

- **Revaluation reserve**

This comprises surplus on revaluation of property and equipment and is not distributable.

- **RMF reserve fund**

Members make contributions to the society to cater for insurance cover over deceased member loan balances and funeral expense benefits. The cover for the current financial year is provided by CIC. Contribution to this fund is currently set at Shs. 300 per member per month. The excess of members contributions over premium payments is recorded under RMF reserve fund. The carrying amount at the end of the period is recognised in the statement of changes in equity and the surplus is available for distribution to members.

- Dividends account

Dividend is recognised as a liability by transferring funds from retained earnings to dividend account. Proposed dividends are disclosed as a separate component of equity. This reserve is distributable.

o) Comparatives

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

2. Revenue	**Shs**	**Shs**
a) **Interest income**		
Interest on loans and advances to members	**311,798,741**	**284,110,750**
b) **Other interest income**		
Interest on savings reserve	6,363,963	1,600,191
Interest on term deposits	5,903,332	10,470,724
	12,267,295	12,070,915
Total interest income	**324,066,036**	**296,181,665**
c) **Interest expenses**		
Interest on members deposits	255,133,581	229,480,125
Interest on special savings	11,404,806	9,270,275
Total interest expense	**266,538,387**	**238,750,400**
Net interest income	**57,527,649**	**57,431,265**
d) **Other operating income**		
Rental income	415,500	3,906,000
Loan clearance commission	25,275,679	20,740,024
Bankers cheque commission	1,765	2,925
Dividends	2,228,153	2,384,982
Gain on scrapped asset	115,884	-
Encashment commission	19,016	22,389
Entrance fee	257,600	396,500
Income from RMF (Note 22)	14,480,934	17,803,483
Miscellaneous income	1,068,787	745,282
Total other operating income	**43,863,318**	**46,001,585**

3. Fair value gain/(loss) on available for sale financial assets

Gain/(loss) on valuation of financial assets during the year comprise the following:

Co-opholdings Co-operative Society Limited shares	5,647,799	(3,534,068)
Co-operative Insurance Society Limited shares	-	(290,800)
	5,647,799	**(3,824,868)**

4. Tax recoverable

	2017 Shs	2016 Shs
Taxation		
Balance brought forward	(3,631,055)	1,811,311
Add: tax charge for the year	2,763,347	3,774,509
Tax credit adjustment	1,447,743	-
Less: withholding tax paid	(1,056,526)	(1,808,578)
Less: 2015 Tax paid	-	(1,811,311)
Less: 2016 Instalment tax paid	(1,968,643)	(5,596,986)
Tax due	(2,445,134)	(3,631,055)

5. Tax

Current tax	**2,763,347**	**3,774,509**

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

Reconciliation of the expense

Surplus before tax	16,193,020	27,413,898
Tax calculated at a tax rate of 30% (2016: 30%)	4,857,906	8,224,169
Tax effects of:		
- expenses not deductible for tax purposes	105,520,900	94,430,805
- income not subject to tax	(107,615,459)	(98,880,465)
Tax charge	**2,763,347**	**3,774,509**

6. Cash and cash equivalents

Cash and cash equivalents at the end of the year comprise:-

Cash in hand	8,567,220	10,672,663
Cash at bank	88,298,349	188,595,594
Short term bank deposits	78,185,899	110,755,566
Total	**175,051,468**	**310,023,823**

The weighted average effective interest rate on short-term bank deposits at year-end was 10.45% (2016: 10.45%).

For the purpose of the Statement of Cashflows, cash and cash equivalents comprise cash in hand, deposit held at call with banks an dinvestment in the money market instruments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Society Main Account recorded a reduced balance arising from delayed remittance which were expected within the month. These amounts have been reported under receivables and they were subsequently received in the Month of January 2018

The carrying amounts of the society's cash and cash equivalents are denominated in Kenya Shillings (Shs).

7. Receivables and prepayments

	2017 Shs	2017 Shs
Receivables	114,929,961	7,185,477
Insurance premium prepaid	3,723,347	2,862,868
Prepayments	2,690,209	3,772,431
Deceased loans due from insurance	6,741,037	2,479,366
Loan disbursement control	729,389	1,990,486
Rent receivable	-	900,000
Due from related party (Note 19)	44,954,080	44,954,080
	173,768,023	64,144,708
Provision for bad debts	-	(1,919,063)
Net other receivables	**173,768,023**	**62,225,645**
Ageing of receivables		
0 - 30 days	173,038,634	60,235,159
over 30 days	729,389	1,990,486
Total	**173,768,023**	**62,225,645**

Receivables comprise the monthly deductions from members' salaries remitted through check off.

In the opinion of the directors, the carrying amounts of receivables and prepayment approximate to their fair value.

The directors are of the opinion that the society's exposure is limited because the debt is widelyheld.

The carrying amounts of the society's receivables are denominated in Kenya Shillings (Shs.)

8. Loans and advances	**2017 Shs**	**2016 Shs**
At start of year	2,435,313,623	2,153,121,256
Granted during the year	1,662,358,578	1,518,284,471
Repaid during the year	(1,417,200,735)	(1,236,092,104)
	2,680,471,466	2,435,313,623
Provision for loan losses	(1,169,371)	(1,781,711)
At year end	**2,679,302,095**	**2,433,531,912**

Loans and advances comprise of the following:	**2017 Shs**	**2016 Shs**
Development loans	1,555,928,375	1,597,184,342
School fees loans	20,577,755	49,445,369
Emergency loans	72,593,740	18,990,337
Refinancing loans	608,983,290	544,620,262
Defaulter loans	3,892,979	1,212,677
Almasi loans	662,994	817,857
Jongea loans	3,118,371	2,729,384
Shujaa loans	395,943,188	198,831,021
Tiba loans	15,192,414	18,375,505
Mpoa loans	3,578,360	3,106,869
	2,680,471,466	**2,435,313,623**

Movement in provisions		
At start of year	1,781,711	-
Loans written off	(783,255)	-
Increase in provisions	170,915	1,781,711
At end of year	**1,169,371**	**1,781,711**

The provision at the end of year as per IAS 39 is Shs. 1,169,371. The society's financial statements are prepared based on the International Financial Reporting Standards framework hence the provisions are based as per IAS 39.

Ageing of loans to members is as follows:	**2017 Shs**	**2016 Shs**
Due within the year	74,159,776	67,696,546
Due after one year	2,605,142,319	2,365,835,366
	2,679,302,095	**2,433,531,912**

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The society has a loan guard policy on all classes of loans issued by Co-perative InsuranceCompany Limited in which there is compensation of insured loan balance in the event of deathor total disability of a member.

The society's credit risk arises primarily from loan receivables. The directors are of the opinion that the society's exposure is limited because the debt is widely held.

All loans are dominated in Kenya Shillings (Shs.).

Loans to insiders
Insiders are deemed to be employees, members of supervisory committees and directors of the society. The following loans were granted to insiders:

Loans to insiders	**2017 Shs**	**2016 Shs**
Total loans outstanding at end of year:	**58,086,587**	**52,633,565**
Loans to directors	16,220,032	15,744,972
Loans to branch officials	14,614,882	14,551,268
Loans to supervisory committee members	3,018,100	4,284,700
Loans to other employees	24,233,573	18,052,625
Total loans and advances	**58,086,587**	**52,633,565**

9. Financial assets
Financial assets comprise the following:

	2017 Shs	2016 Shs
At start of year	35,737,951	39,562,819
Additions	218,921	-
Fair value gains/(losses)	5,647,799	(3,824,868)
	41,604,671	35,737,951
Available-for-sale		
Co-opholdings Co-operative Society Limited shares	32,209,229	26,561,430
KUSCCO ordinary Shares	5,980,002	5,761,081
Co-operative Insurance Society Limited shares	3,415,440	3,415,440
Total investments	**41,604,671**	**35,737,951**
Income from available for sale financial assets (Note 2d)	2,228,153	2,384,982

The fair values of financial assets are categorised as follows:

Level 2: where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
Level 3: where fair values are not based on observable market data.

Year ended 31 December 2017	Level 2 Shs	Level 3 Shs	Total Shs
Available-for-sale	35,624,669	5,980,002	41,604,671
Year ended 31 December 2016			
Available-for-sale	29,976,870	5,761,081	35,737,951

Credit risk primarily arises from the changes in the market value and the financial stability of the respective quoted companies.

Management monitors the credit quality of financial assets by:
- discussion at the management and board meetings;
- reference to external historical information available;
- discussions with the society's investment advisors;

The maximum exposure to credit risk as at reporting date is the carrying value of the financial assets as disclosed above.

None of the financial assets are considered to be impaired and are dominated in Kenya Shillings (Shs.).

10. Investment property	Saachi Plaza Shs	WIP - Ushuru Sacco centre Shs	2017 Shs	2016 Shs
At start of year	35,000,000	154,385,523	189,385,523	153,301,337
Additions	-	195,155,286	195,155,286	58,084,186
Transfers (to) assets held for sale (Note 11)	-	-	-	(22,000,000)
At end of year	**35,000,000**	**349,540,809**	**384,540,809**	**189,385,523**

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out by Paragon Property Valuers and Consultants Limited an independent professional valuer with recent experience in the location and category of the investment property being valued.

The fair valuation of investment property is considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the property, consistent with prior periods. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs. There were no transfers between level 1, 2 or 3 fair values during the year.

The table above presents the changes in the carrying value of the investment property arising from these fair valuation assessments.

11. Assets held-for-sale

Investment property located at Airport View Estate and owned by the society, has been reclassified to assets held for sale following the approval by the management to dispose off the asset.

	2017 Shs	2016 Shs
At start of the year	22,000,000	-
Transfer from investment property (Note 10)	-	22,000,000
Accumulated depreciation	(82,400)	-
Sales proceeds	(19,594,000)	-
(Loss) on disposal of assets-held -on-sale	(2,323,600)	-
At end of year	**-**	**22,000,000**

12. Property and equipment

Year ended 31 December 2017

	Motor vehicles Shs	Computers Shs	Equipment, furniture and fittings Shs	Total Shs
Cost				
At start of year	3,920,000	6,722,089	7,684,367	18,326,456
Additions	-	-	175,355	175,355
At end of year	3,920,000	6,722,090	7,859,722	18,501,811
Comprising:				
Cost	-	6,722,090	7,859,722	14,581,812
Revaluation	3,920,000	-	-	3,920,000
	3,920,000	6,722,090	7,859,722	18,501,812
Depreciation				
At start of year	1,960,000	5,897,544	5,331,327	13,188,871
Charge for the year	980,000	527,820	982,465	2,490,285
At end of year	2,940,000	6,425,364	6,313,792	15,679,156
Net book values	**980,000**	**296,726**	**1,545,930**	**2,822,655**

Year ended 31 December 2016				
Cost				
At start of year	3,920,000	5,835,784	7,187,749	16,943,533
Additions	-	886,305	496,618	1,382,923
At end of year	3,920,000	6,722,089	7,684,367	18,326,456
Comprising:				
Cost	-	6,722,089	7,684,367	14,406,456
Revaluation	3,920,000	-	-	3,920,000
	3,920,000	6,722,089	6,722,089	18,326,456
Depreciation				
At start of year	-	5,369,724	4,370,781	10,720,505
Charge for the year	980,000	527,820	960,546	2,468,366
At end of year	1,960,000	5,897,544	5,331,327	13,188,871
Net book values	**1,960,000**	**824,545**	**2,353,040**	**5,137,585**

Motor vehicles were professionally valued on 13 June 2015 by Automobile Association of Kenya on the basis of open market value. The book values of the motor vehicles were adjusted to the revaluations and the resultant surplus was credited to other comprehensive income.

13. Intangible assets (software)

	2017 Shs	2016 Shs
Cost		
At start of year	10,988,896	6,488,166
Scrapped asset	(6,488,166)	-
Additions	382,336	4,500,730
At end of year	4,883,066	10,988,896
Amortisation		
At start of year	7,986,909	6,256,050
Scrapped asset	(6,604,050)	-
Amortisation charge	1,858,177	1,730,859
At end of year	3,241,036	7,986,909
Net book value	**1,642,030**	**3,001,987**

Amortisation of Shs. 1,858,177 (2016: Shs. 1,730,859) is included in other operating expenses in the statement of comprehensive income.

14. Other payables	**2017 Shs**	**2016 Shs**
Sundry payables	8,139,005	5,298,693
Software (NAV 2016) payable	450,074	1,800,293
Rent deposit	-	1,200,000
Audit fee	850,000	750,000
Mpesa deposit account	990,352	513,798
Honoraria/Staff bonus provision	3,625,000	3,425,000
Withdrawals payable	12,491,362	-
Other payables	474,401	615,519
Total other payables	**27,020,194**	**13,603,303**

In the opinion of the directors, the carrying amounts of other payables approximate to their fair value.

The average credit period on purchases from suppliers is 30 days. No interest is charged on other payables.

The carrying amounts of the society's other payables are denominated in the Kenya Shillngs (Shs.).

15. Interest due to members		
At the start of the year	238,750,400	208,974,975
Provisions for the year	266,538,387	238,750,400
Write back of overprovision of interest payable	(609,022)	(278,578)
Payments during the year	(238,141,378)	(208,696,397)
At end of year	**266,538,387**	**238,750,400**

The interest payable comprises of interest on members deposits at 10.5% (2016: 10.5%) and interest on investemnet savings at 9% (2016: 9%) both on a prorata basis.
The interest is payable to members in the register at the end of the financial year
The carrying amounts of the society's interest due is denominated in Kenya Shillngs (Shs).

16. Members' deposits	**2017 Shs**	**2016 Shs**
At the start of the year	2,383,348,678	2,096,594,617
Deposits during the year	443,470,547	385,725,901
Withdrawals/refunds during the year	(226,164,388)	(98,971,840)
	2,600,654,837	**2,383,348,678**
Members' investment savings		
At the start of the year	118,595,884	97,577,582
Deposits during the year	267,800,066	105,049,656
Withdrawals/refunds during the year	(240,518,625)	(84,031,354)
	145,877,325	118,595,884
Total member savings	**2,746,532,162**	**2,501,944,562**

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There are no members holding more than 20% of total members deposits.The carrying amounts of the society's members' deposits are denominated in Kenya Shillngs (Shs).

17. Share capital

	2017 Shs	2016 Shs
At start of year	64,608,002	52,998,978
Contributions for the year	98,428,915	11,609,024
At end of year	**163,036,917**	**64,608,002**
Comprising of:		
Paid up	150,290,014	62,184,585
Partly paid	12,746,903	2,423,417
	163,036,917	**64,608,002**

Share Capital represents equity in the form of issued and fully paid up shares of commonstock. The minimum share capital was increased from Kshs.10,000 to Kshs. 30,000 during the year 2017 in order to boost the core capital of the society.

18. Reserves

Included in the members balances are the following reserves which are as a result of statutory requirements:-

i) **Statutory reserve**	2017 Shs	2016 Shs
At start of year	36,540,910	31,813,032
Transfer from retained earnings	2,685,935	4,727,878
At end of year	**39,226,845**	**36,540,910**

ii) **Capital reserve**	2017 Shs	2016 Shs
At start of year	-	599,866
Transfer to retained earnings	-	(599,866)
At start and end of year	-	-
iii) **Retained earnings**		
At start of year	104,258,659	91,841,530
Interest written back to provisions	609,022	263,436
Surplus for the year	13,429,673	23,639,389
Transfer of from revaluation reserve	980,000	980,000
Transfer to statutory reserve	(2,685,935)	(4,727,878)
Tax adjustment - 2016	(1,447,743)	-
Write back - provision for bad debts	1,414,383	-

Depreciation written back	360,500	-
Dividend overprovision - 2016	19,337	15,142
Proposed dividend	(11,683,444)	(7,752,960)
At end of year	**105,254,452**	**104,258,659**
iv) **RMF reserve fund**		
At start of year	67,204,946	67,204,946
Transfer to retained earnings	-	-
At end of year	**67,204,946**	**67,204,946**
(v) **Revaluation reserve**		
At start of year	1,940,000	2,940,000
Transfer of excess depreciation	(980,000)	(980,000)
At start and end of year	**980,000**	**1,960,000**
(vi) **Fair value reserve**		
At start of year - as previously stated	28,051,739	31,876,607
Fair value gain/(loss)	5,647,799	(3,824,868)
At end of year	**33,699,538**	**28,051,739**

(vii) **Dividend account**

The total proposed dividend for the year is 11% of investment shares (2016: 12%) amounting to a total of Shs. 11,683,444 (2016: Shs. 7,752,960).

	2017 Shs	**2016 Shs**
At start of year	7,752,960	6,359,877
Paid during the year	(7,733,623)	(6,344,735)
Overprovision in prior year	(19,337)	(15,142)
Proposed during the year	11,683,444	7,752,960
At end of year	**11,683,444**	**7,752,960**

	2017 Shs	2016 Shs
19. Related party transactions		
(i) **Outstanding balances arising related party transactions**		
Receivable from related parties (Note 7)	**44,954,080**	**44,954,080**
(ii) **Key management personnel remuneration**		
Short term employee benefits	9,410,400	8,264,028
Post employment benefits	431,292	384,188
	9,841,692	**8,648,216**

20. Commitments

Contractual commitments for the acquisition of investment properties

At the reporting date these commitments were as follows:	2017 Shs	2016 Shs
Investment properties	**50,591,208**	**216,795,993**

21. Risk management objectives and policies

Financial risk management

The society's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The society's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the society's financial performance.

Risk management is carried out by the board of directors and focuses on overall risk management, as well specific areas, such as liquidity risk,interest rate risk, credit risk, and investment of excess liquidity.

(a) **Market risk**

- **Interest rate risk**

The society's exposure to interest rate risk arises from loans and advances and members' deposits.

Financial assets and liabilities advanced and obtained at different rates expose the society to interest rate risk. Financial assets and liabilities obtained at fixed rates expose the society to fair value interest rate risk, except where the instruments are carried at amortised costs.

The table below summarises the effect on post-tax surplus had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1 percentage point, the effect would have been the opposite.

	2017 Shs	2016 Shs
Effect on surplus - arising from loans and advance - increase	20,786,583	18,940,717
Effect on surplus - arising from members balances - (decrease)	(17,769,226)	(15,916,693)

- **Price risk**

The society is exposed to equity securities price risk because of investments held by the society and classified on the statement of financial position as 'Available-for-sale' fair value through the statement of comprehensive income.

The society's investments in equity of other entities derive their market value from the quoted prices of publicly traded shares which are included in the Nairobi Stock Exchange (NSE).

The table below summarises the impact of increases/decreases of the NSE on the society's post-tax surplus for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the society's equity instruments moved according to the historical correlation with the index:

	Impact on other comprehensive income	
Index	**2017 Shs**	**2016 Shs**
NSE	1,781,233	1,498,844

A 5% sensitivity rate is being used when reporting price risk internally to key management personnel and represents managements assessment of the reasonably possible change in market rates of stock prices.

(b) **Credit risk**

Credit risk is the risk of suffering financial loss, should any of the society's member fail to fulfil their contractual obligations to the society. Credit risk arises mainly from member's loans and advances. The members loans and advances are mostly secured by guarantees of other members and members' deposits.

Credit risk is the single largest risk for the society's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk commitee, which reports to the board of directors.

i) **Credit risk measurement**

The society takes on exposure to credit risk which is the risk of financial loss to the society if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Society's loans and advances to members.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed by obtaining guarantees from members. Credit risk in the society, is also managed through a framework of policies and procedures. Originationand approval roles are segregated with different levels of the credit committee having authorities toapprove loans upto a certain amount based on their position in the organization hierarchy.

The credit grades within society are based on a probability of default. The society structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to the nature and type of loans. The society grades its loans into five categories on the basis of the following criteria:

(1) **Performing loans**, being loans which are well documented and performing according to contractual terms;

(2) **Watch loans**, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding;

(3) **Substandard loans**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding;

(4) **Doubtful loans**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve instalments have remained outstanding; and

(5) **Loss loans**, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding.

ii) **Problem credit management and provisioning**

Across all its loan portfolios, the society employs a disciplined approach to impairment allowances evaluation, with prompt identification of problem loans being a key risk management objective. The society maintains both collective and specific impairment allowances for credit losses, the sum of which is sufficient to reduce the book value of credit assets to their estimated realisable value.

A primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. An account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the society follows industry standards, measuring delinquency as of 1, 30, 180, 360 and above 361 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

Specific impairment allowances reduce the aggregate carrying value of credit assets where there is specific evidence of deterioration in credit quality. A collective allowance is maintained to cover potential impairment in the existing portfolio that cannot be associated with specific credit. These allowances are reviewed and updated on a regularly basis.

The process used for recognising the impairment provisions is are generally raised at the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral except where the collateral value is typically realised in less than 12 months then the loan impairment is calculated using the forced sale value of the collateral without further discounting. In certain cases involving bankruptcy, fraud and death, the loss recognition process is accelerated.

The society writes off loans and advances net of any related allowances for impairment losses when it determines that the loans are uncollectable and securities unrealisable. This determination is reached after accessing objective evidence or occurrence of significant changes in the borrower or issuer's financial position such that they are no longer able to repay the obligation, or that proceeds from the sale of collateral will not be sufficient to pay back the entire exposure. This is done after exhausting all other means including litigation.

- Loans and advances that are neither past due nor impaired

The society classifies loans and advances under this category if they are up to date and in line with their contractual agreements such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in line with internal guidelines and those issued by regulators where applicable. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory credit risk reserves.

- Past due but not impaired

This category includes exposures that are between 1 – 180 days past due, where losses have been incurred but have not been identified. These exposures are graded as category 2 or 3 in line with our internal guidelines.

- Impaired loans and advances

Impaired loans and advances are those which the society determines that it is probable that it will be unable to collect all principal and interest due according to the terms of the loan securities agreement(s). These loans are graded between categories 4 (181-360 days) and 5 (over 360 days) using the society's internal credit rating system. The society establishes a specific allowance for impairment losses that represents the estimate of losses that will be incurred in its loan portfolio.

The society exposure to credit risk is analysed as follows:

- **Collateral**

The society holds collateral against all loans and advances to members in the form of cash, fixed deposits and other members guarantees. The society has developed specific policies and guidelines for the acceptance of different classes of collateral.

Estimates of the collateral's fair values are based on the value of collateral independently and professionally assessed at the time of borrowing, and re-valued with a commensurate with nature and type of the collateral and credit advanced. Collateral structures frequency and covenants are subjected to regular review to ensure they continue to fulfil the intended purpose.

Year ended 31 December 2017	Loans to members Shs	Loans to board and committee members Shs	Loans to management staff Shs	Loans to other staff members Shs	Total Shs
Neither past due nor impaired	2,621,215,508	19,238,132	14,614,882	24,233,573	2,679,302,095
Individually impaired	1,169,371	-	-	-	1,169,371
Gross	2,622,384,879	19,238,132	14,614,882	24,233,573	2,680,471,466
Less: allowance for impairment	(1,169,371)	-	-	-	(1,169,371)
Net	**2,621,215,508**	**19,238,132**	**14,614,882**	**24,233,573**	**2,679,302,095**
Year ended 31 December 2016					
Neither past due nor impaired	2,376,776,167	20,029,672	14,551,268	18,052,625	2,429,409,732
Past due but not impaired	4,122,180	-	-	-	4,122,180
Individually impaired	1,781,711	-	-	-	1,781,711
Gross	2,382,680,058	20,029,672	14,551,268	18,052,625	2,435,313,623
Less: allowance for impairment	(1,781,711)	-	-	-	(1,781,711)
Net	**2,380,898,347**	**20,029,672**	**14,551,268**	**18,052,625**	**2,433,531,912**

(c) **Liquidity risk**

Cash flow forecasting is performed by the finance department monthly by monitoring the society's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed facilities at all times so that the society does not breach limits on any of its facilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the society's management maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Year ended 31 December 2017

	Current to 1 year Shs	1 to 5 years Shs	Total Shs
- Member savings	2,746,532,162	-	2,746,532,162
- Other payables	27,020,194	-	27,020,194
- Interest due to members	266,538,387	-	266,538,387
	3,040,090,743	**-**	**3,040,090,743**

Year ended 31 December 2016

	Current to 1 year Shs	1 to 5 years Shs	Total Shs
- Member savings	2,501,944,562	-	2,501,944,562
- Other payables	13,603,303	-	13,603,303
- Interest due to members	238,750,400	-	238,750,400
	2,754,298,265	**-**	**2,754,298,265**

22. Risk management fund

Statement of income and expenditure

	2016 Shs	2016 Shs
Income		
Members contributions during the year	18,001,793	16,173,991
Premiums on loans issued	10,161,587	10,298,773
Total income	**28,163,380**	**26,472,764**

Other income		
Interest earned	4,255,235	4,591,755
Other income	-	624,300
Total other income	4,255,235	5,216,055
Total income	**32,418,615**	**31,688,819**
Expenses		
Members refund and loan offset	2,114,915	2,280,544
Loans written off	1,119,304	70,100
Funeral expenses paid	130,000	180,000
Committee expenses	540,000	540,000
Insurance premium	14,032,912	10,814,692
Bank charges	550	-
Total claims	17,937,681	13,885,336
Net surplus for the year	**14,480,934**	**17,803,483**

The society operates a risk management fund (RMF) to cover against deceased members loan balances, permanent incapacitation or any other cause satisfactory to the board of directors. The fund is contributed to by members a minimum of Shs. 300 per month. Additionally, there is 3% charge on all loans in excess of Shs. 500,000 which further contributes to the fund. This fund is then reinsured with co-operative insurance company (CIC).

23. Capital management

Internally imposed capital requirements

The society manages its capital to ensure that it will be able to continue as a going concern whilemaximising the return to members through the optimisation of the debt and equity balance.

The capital structure of the society consists of net debt calculated as member's deposit (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising share capital, reserves and dividend account). The directors reviews the capital structure on a monthly basis. As part of this review, the directors considers the cost of capital and the risks associated with each class of capital.

The debt-to-capital ratios at 31 December 2017 and 2016 were as follows:

	2017 Shs	2016 Shs
Total members deposits (Note 16	2,746,532,162	2,501,944,562
Total cash and bank balances (Note 6)	(175,051,468)	(310,023,823)
Net debt	**2,571,480,694**	**2,191,920,739**
Total equity	**409,402,698**	**302,624,256**
Gearing ratio	**6.3:1**	**7.2:1**

The gearing ratio reflected above takes into consideration all members' deposits as current obligations. The deposit comprises share members deposits of Shs. 2.6B which are withdrawable on notice and members' investments savings of Shs. 145M which are withdrawable on demand.

24. GOVERNANCE EXPENSES

	2017 Shs	2016 Shs
ADM expenses	3,986,615	3,425,300
Delegates education	3,241,790	2,976,850
Members education	2,722,482	2,404,105
Board and branch officials training	4,460,888	4,137,638
Board sitting allowances	6,044,900	5,588,000
Board travel and other expenses	6,513,400	5,807,910
Branch meeting expenses	1,303,819	851,084
Board personal accident cover	143,606	182,045
Ushirika day celebrations	382,000	431,165
Total governance expenses	**28,799,500**	**25,804,097**

25. ADMINISTRATIVE EXPENSES

	2017 Shs	2016 Shs
Employment:		
Salaries and emoluments	24,768,367	20,339,000
Staff bonus and honoraria	3,625,000	3,425,000
Staff medical cover	2,033,338	1,913,979
National Social Security Fund	40,400	39,800
Staff provident fund	972,730	822,637
Staff education	2,922,039	2,299,025
Total employment costs	**34,361,874**	**28,839,441**
Other administrative expenses:		
Travel and subsistence	1,592,600	1,589,200
Printing and stationery	1,231,319	1,289,956
Cash in transit expenses	83,520	414,400
Audit fees	850,000	750,000
Supervision and filing fee	85,200	75,200
VAT charge non recoverable	136,000	120,000
Strategic plan and consultancy expenses	975,200	514,000
Legal fees	236,440	196,251
Bank charges	574,456	585,488
Dividend computation expenses	25,000	25,000
Social responsibility	615,000	300,000
Subscription and donations	125,000	190,000
Entertainment	444,598	436,017
Telephone and postage and airtime	909,826	968,344
Marketing, publicity and advertisement	4,550,981	4,544,283
Motor vehicle expenses	584,722	730,804
Recruitment commission	5,300	28,600
Computer expenses	861,160	788,278
Sundry expenses	582,118	703,477
Bad debts written-off	-	620,767
Provision for bad debts	-	19,506

Total other administrative expenses	14,468,440	14,889,571
Total administrative expenses	**48,830,314**	**43,729,012**

26. OTHER OPERATING EXPENSES

	2017 Shs	2016 Shs
Establishment:		
Depreciation on property and equipment	2,490,285	2,468,366
Amortisation of intangible assets	1,858,177	1,730,859
Loss on disposal of assets held-for-sale	2,323,600	-
Rates and rent	299,645	37,661
Water, fuel and electricity	151,303	5,000
Repair and maintenance	274,208	462,246
Total other operating expenses	**7,397,218**	**4,704,132**

27. Incorporation

Ushuru Savings and Credit Co-operative Society Limited is registered in Kenya under the Co-operative Societies Act, Cap. 490 and is domiciled in Kenya.

28. Presentation currency

The financial statements are presented in Kenya Shillings (Shs.)

Ushuru Sacco staff

NOTES

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SACCO SOCIETY LIMITED
Huduma Maradufu

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Huduma Maradufu

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