USHURU
SACCO SOCIETY LIMITED

Huduma Maradufu

ANNUAL REPORT 2022
& FINANCIAL STATEMENTS

Quality & Highly efficient Services to Members
Since 1970

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

Ushuru Savings and Credit Co-operative Society Limited in its commitment to realise the vision and mission upholds the following core values:

Simplicity: We deliver quality services in a simple and friendly manner.

Proficient: We exercise professionalism, compe tence and best practice in all we do.

Cohesive: We stick together as a team in realizing our co-operative agenda.

Ethical: We uphold integrity and honesty in all our affairs.

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BOARD OF DIRECTORS

Isaac Kiprop
National Chairman

Dominic Mokaya
National Hon. Secretary

Onesmus Nzuki
National Vice Chairman

Samuel Wachiuri
National Treasurer

Martin Obara
Director

William Ndiritu
Director

Boaz Chimasia
Director

Emily Obonyo
Director

Clemence Wawuda
Director

William Pudha
Chief Executive Officer

SUPERVISORY COMMITEE

Kevin Maina
Chairman

Thomas Ondara
Secretary

Isaac Mwangi
Member

MANAGEMENT STAFF

William Pudha
Chief Executive Officer

Edward Obilo
Manager Finance

Cynthia Mwakalama
Manager Operations & HR

Wycliffe Mutuli
Manager ICT

Caroline Ogutu
Manager Credit

Elizabeth Ouko
Manager Internal Audit

SOCIETY PROFILE

Ushuru Savings and Credit Co-operative (Sacco) Limited was formed in 1970 by employees of Customs and Excise Department, Ministry of Finance at the time, under the name of Customs & Excise Workers (CUEW) Sacco. At inception, its membership was limited to employees of the Customs Department, although those who were transferred from Customs to other Government Departments were allowed to retain their membership.

The Society later opened up its bonds and started admitting members from reputable companies other than the Kenya revenue Authority and government ministries. This enabled the Society to recruit more members and currently it boasts of more than 7,000 members drawn from various companies.

The Sacco derives its mandate from the Co-operative Societies Act 2004 and its revised Act of 2012 and its Bylaws. The affairs of the Sacco are directed by the Board of Directors (BOD) elected by delegates at the Annual Delegates Meeting (ADM) while the Supervisory Committee performs an oversight over the Board. The core function of the Sacco is to accumulate funds through members' deposit and extend credit facility to its membership.

The Core function of the Sacco is savings and disbursement of loans. The Sacco offers various product through its back office, which include savings and credit facilities. At the back office, long and short term loan products are issued to members for property acquisition, development needs as well as education and emergency needs. The Sacco registered an Investment Co-operative in the year 2013 to offer members' investment opportunities in real estate development.

The Sacco has partnered with a number of service providers to provide value addition services like mobile banking through M-ushuru platform. Here members can access various services like digital loan application and members' product balances. Additionally, the Sacco has a web portal where members can apply for loans online, guarantee loans, check for loan guarantee status, next of kin details and product balances.

In order to maintain a balance between organizational goals and resources available, the Sacco acknowledges the importance of working with specific targets which is generally achieved through a strategic plan. The Strategic plan (2018-2022) has just come to an end with notable achievements on the various pillars that the Society had focused on. The Society has embarked on a journey to develop the 3rd Strategic Plan (2023-2027) in order to fast-track attainment of our goals. The whole plan would be anchored on four pillars namely; people (staff), processes, customers and financial pillar. Through the Strategic plan, the Sacco will actualize Performance Management to track and measure progress.

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 2022.

Economic review

The year 2022 presented the most challenging period for Kenyans in general with the prolonged electioneering period which lasted for more than 4 months and continued with political uncertainty. Inflation averaged at 8.67 per cent during the third quarter of 2022 compared to an average of 7.5 per cent during a similar quarter in 2021. The rise in inflation was mainly due to elevated global commodity prices and supply chain disruptions arising out of the COVID-19 pandemic impact and Ukraine conflict. Commercial banks average lending rate remained relatively stable at about 12.1% in the FY2021/22 compared with 12.0% in the previous financial year while the Central Bank Rate (CBR) was maintained at 7.0% reflecting an accommodative monetary policy stance.

The Co-operative Sector Overview

Despite the myriad number of challenges, the Society has leveraged on technology to digitize its loan application process. Consequently, a majority of loan applicants have moved to the online mode of application compared to the few who prefer the manual mode of loan application. This has significantly boosted loan uptake thus steering the Society's loan portfolio growth steadily. The realized growth in the loan portfolio has inherently increased the provisions on loan loss as well. The Society remains keen on ensuring that all the loans defaulted are eventually paid by engaging debt collectors and exploring other legal options. The Society also grappling with a significant number of retirees' plus high savers who are keen on savings as opposed to patronizing credit facilities. In a bid to retaining their membership, the Society is now in the process of engaging the retirees directly to keep abreast with their requirements and also come up with products suited for them. As a strategy to boost loan uptake, the Society has also initiated a member segmentation initiative so as to address various member category needs and optimize on its performance.

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 18% compared to the previous year. The SACCO recorded 12.6% increase in total assets with members' deposit and loans growing by 10.75% and 15% respectively. Interest on members' deposits proposed increased by 13.8%. The Society has proposed a 15% dividend on share capital for the current year. Growth has been realized on core capital and institutional capital which grew by 15% and 21% respectively while share capital grew by 7%. Our loan delinquency decreased by 15% and this is explained by the intense recovery, continuous follow-up and engaging the debt collectors to pursue loanees not consistently servicing their debt.

Future Outlook

The Society continues to be focused towards attainment of our vision through commitment to deliver value to all our stakeholders: members, employees, regulators and the communities in which we work in. To this end the Society has invested in creating a simpler organization with clearer roles and responsibilities that will enable more collaboration to increase efficiency and strengthen all our relationships. In conclusion, I take this opportunity to extend special thanks to our members for your continued support as well as the Board, the supervisory committee, delegates and members of staff for helping us keep the promise to our members.

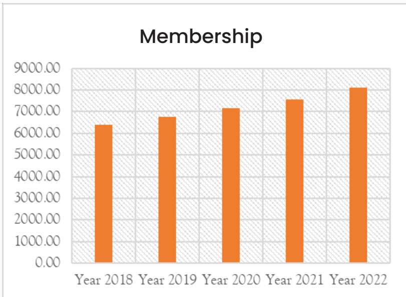
Isaac Kiprop

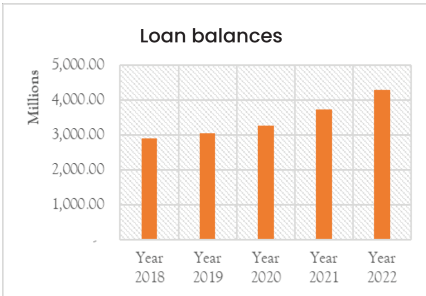
National Chairman

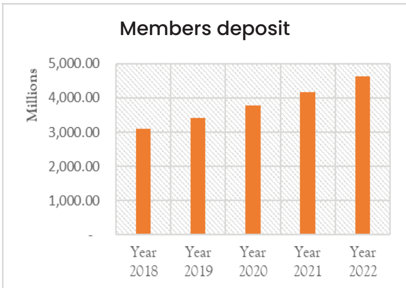
FIVE YEAR PERFOMANCE REVIEW

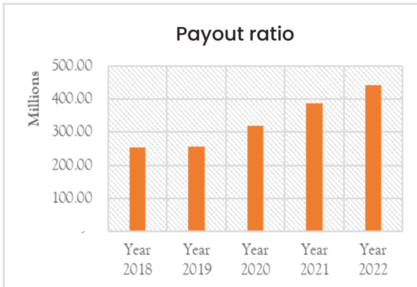
Year	Year 2022	Year 2021	Year 2020	Year 2019	Year 2018
Membership	8115	7571	7152	6766	6392
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Loan balances	4,287,333,839	3,734,819,701	3,275,732,047	3,040,625,964	2,896,863,973
Members deposit	4,619,712,658	4,171,346,151	3,788,517,156	3,422,840,210	3,102,359,566
Payout ratio	441,509,259	387,996,826	318,238,304	257,469,717	253,159,732
Gross income	717,569,793	609,868,602	499,749,535	444,844,968	395,488,442
Share capital	291,174,220	272,835,552	257,292,052	238,211,279	191,678,820
Total assets	6,122,334,170	5,436,211,329	4,848,102,663	4,249,541,279	3,849,501,344
Core Capital	784,746,844	683,591,487	580,239,552	473,408,044	463,859,357
Institutional capital	493,572,624	410,755,935	322,947,500	235,196,765	272,180,537
Capital adequacy					
Core Capital/Total Assets	12.8	12.5	12	11.1	12.00
Core Capital/Total Deposit	17.0	16.4	15.3	13.8	15.00
Institutional Capital/Total Assets	8.1	7.6	6.7	5.5	7.1
Liquidity Ratio	25	29	28	19	13.00
Growth Rate					
Total Income	18	22	13	12.5	7.49
Total Assets	13	12	14	10.4	11.19
Members deposits	11	10	11	10.3	12.96
Loans to members	15	14	6	6.4	8.11
Share Capital	7	6	8	24.3	17.57
Other Disclosures					
Interest on deposit rate	10.2	10	9.0	8.00	9.00
Dividend Rate	15	-	-	10.00	12.00
Delinquent Loans Rate	1.40	0.51	1.65	0.97	0.14

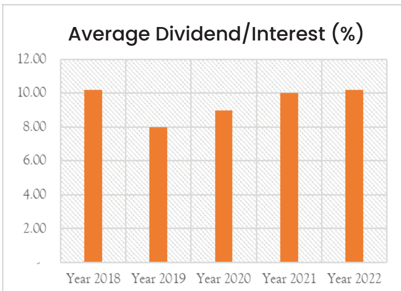
FIVE YEAR PERFOMANCE REVIEW-GRAPHICAL PRESENTATION

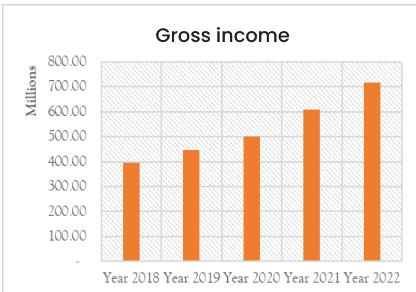


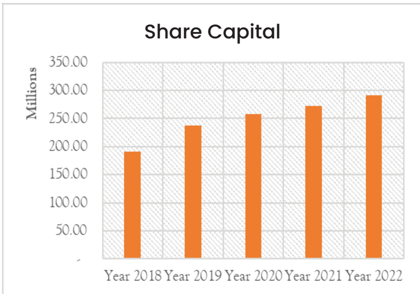


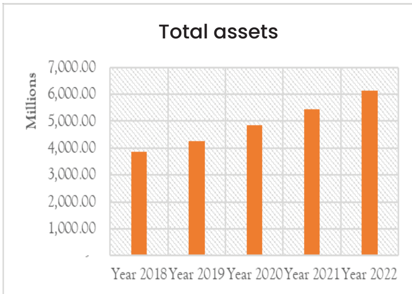


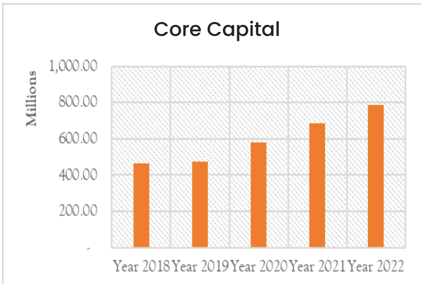


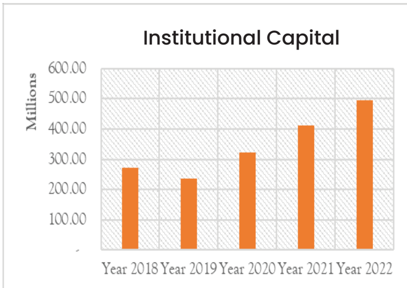


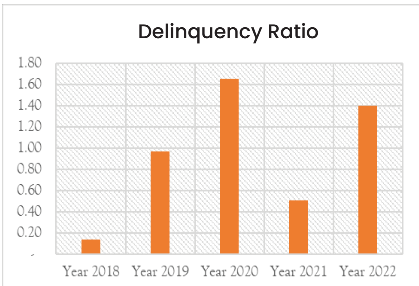


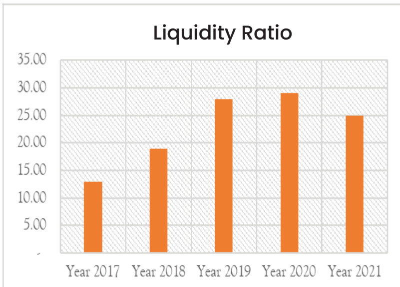

Share Capital
Millions
350.00
300.00
250.00
200.00
150.00
100.00
50.00
-
Year 2018
Year 2019
Year 2020
Year 2021
Year 2022


Total assets
Millions
7,000.00
6,000.00
5,000.00
4,000.00
3,000.00
2,000.00
1,000.00
-
Year 2018
Year 2019
Year 2020
Year 2021
Year 2022


Core Capital
Millions
1,000.00
800.00
600.00
400.00
200.00
-
Year 2018
Year 2019
Year 2020
Year 2021
Year 2022


Institutional Capital
Millions
600.00
500.00
400.00
300.00
200.00
100.00
-
Year 2018
Year 2019
Year 2020
Year 2021
Year 2022


Delinquency Ratio
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
-
Year 2018
Year 2019
Year 2020
Year 2021
Year 2022


Liquidity Ratio
35.00
30.00
25.00
20.00
15.00
10.00
5.00
-
Year 2017
Year 2018
Year 2019
Year 2020
Year 2021

STATEMENT OF CORPORATE GOVERNANCE

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

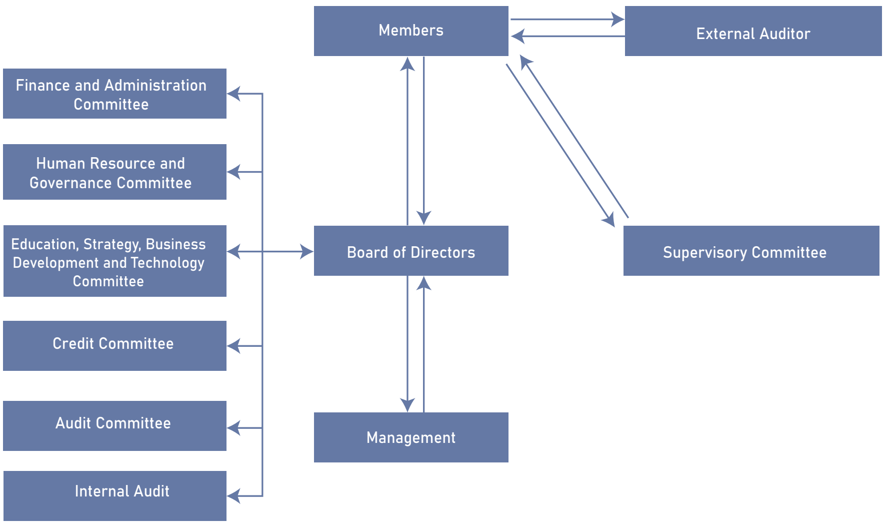
Section 41 of the Society By-laws, provides that the supreme authority (of the Sacco) is vested in the annual delegates meeting (ADM) which is to be constituted by the elected delegates. The delegates in turn elect amongst themselves a Board of Directors that is accountable to the members and other stakeholders through the ADM.

The Delegates Meeting is presided over by the Chairman in his absence the Vice Chairman. All business at the General 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 at the Delegates Meeting appoint external auditors each year from the list of three recommended names presented by the Board.

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 National Chairman, National Vice Chairman, Honorary Secretary and the National 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 every 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.

The Society has laid solid foundations for the Directors and oversight of its operations and administration, including clear guidelines on who the Board comprises; well understood delineations on the roles of Chairman, Society's Secretary and CEO; and clear proclamation of the Board's priorities. The composition of the Board is determined in accordance with the Society's By-law.

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.

The Board comprises Directors with an appropriate range of qualifications and experience. In accordance with the Board Election Policy, the Directors are rotated through the mechanisms contained in Society's By-law, which require a third of Directors to retire each year, with a three-year Rotation Period for each Director. Directors retiring by rotation may stand for re-appointment. This process is used to periodically review and recommend changes in the composition of the Board.

Once elected at the annual delegates meeting, the Directors go through an induction process where among other things they are taken through the Sacco policies, procedures and relevant regulations.

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 skills development and succession planning

Sacco Board members are individuals from different professions, and some have little knowledge of Sacco laws, rules and procedures. To bridge this gap, the Sacco facilitates training at local, regional and international level for Board and Supervisory committee members to equip them with the necessary skills required to manage and oversee the Sacco's operations.

Board continuity

The terms of service for each elected Board and Supervisory committee members is 3 years with an option for reelection. To ensure continuity, each year, a third of the Board of Directors and the Supervisory committee retire. The retirees are eligible for re-election and this is aimed at ensuring there is [proper succession planning.

Board committees

In order to efficiently drive its corporate governance mandate, the Board constitute specific committees which work independent 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.	Finance, Investment and Administration Committee	- Chaired by Mr. Isaac Kiprop
2.	Credit Committee	- Chaired by Mr. Boaz Chimasia
3.	Education, Strategy, Business Development and Technology Committee	- Chaired by Mr. Onesmus Nzuki
4.	Human Resource and Governance Committee	- Chaired by Mr. Samuel Wachiuri
5.	Audit, Risk Management and Compliance Committee	- Chaired by Mr. William Ndiritu

Finance, Investment and Administration Committee

This consists of the Chairman, Vice Chairman, Secretary and Treasurer. The Finance & Administration Committee assists the Board in its oversight of the integrity of the Society's financial operations, long-term economic health, and allocation of resources. 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, none of the executive committee members can be part of the committee. The committee has the general responsibility of approving or disapproving all requests from members for loans. It 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.

Human Resource and Governance Committee

The committee assists the Board in fulfilling its responsibilities with respect to hiring, evaluation, compensation and succession planning for officers and other employees. The committee consists of three Directors.

Education, Strategy, Business Development and Technology Committee

This committee consists of four members of the Board with the vice-chairman as the chair of the committee. This committee is responsible for organizing educational forums for members, educational tours, seminars and training to both members of the Board and staff. Additionally, they give advice to the on the business strategies as well as technological advancement to implemented in order for the Society to realize its goals.

Audit, Risk Management and Compliance Committee

The Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies that set out the roles and respective accountabilities of the Board, the Committee and management. It consists of not more than three members appointed from the Board, one of whom has to be conversant with financial and accounting matters. None of the members of Credit and Finance Committee should be part of the Audit Committee.

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. Comprehensive Board papers are prepared and circulated to all Directors for all substantive agenda items prior to the meeting. This allows time for the Directors to undertake an appropriate review of the Board papers to facilitate full and effective discussions at the meetings. A careful balance of formal and informal 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 and there is diversity in terms of professional competence which ensures that the level of debate is both detailed and of a high technical standard. The Board continues to hold majority of its meetings virtually in line with Ministry of Health guidelines with regards to Covid-19 pandemic and conduct of business.

The table below is a summary of the meeting attendance record of the Board of Directors for the year 2022.

BOARD OF DIRECTORS MEETING ATTENDANCE

NAME	ROLE	WHEN APPOINTED	WHEN RETIRED	ATTENDANCE
Isaac Kiprop	National Chairman	Re-elected 20th March 2021		**12/12**
Dominic Mokaya	Hon. Secretary	7 th April 2019	Dec 2022	**12/12**
Onesmus Nzuki	National Vice Chairman	19 th March 2022		**12/12**
Samuel Wachiuri	National Treasurer	7 th April 2019	Dec 2022	**12/12**
William Ndiritu	Member	20th March 2021		**12/12**
Emily Obonyo	Member	25th March 2017	Dec 2022	**12/12**
Martin Obara	Member	20th March 2021		**12/12**
Boaz Chimasia	Member	19 th March 2022		**12/12**
Clemence Wawuda	Member	19th March 2022		**9/12**

The table below is a summary of the meeting attendance record of the Various Committees for the year 2022.

COMMITTEE MEETING ATTENDANCE

NAME	Finance, Investment & Adminis-tration	Human Resource & Governance	Credit	Audit, Risk Manage-ment & Compliance	Education, Strategy, Business Development & Technology	Super-visory
Isaac Kiprop	12/12	4/4				
Dominic Mokaya	12/12			5/5		
Onesmus Nzuki	12/12				4/4	
Samuel Wachiuri	12/12	4/4				
Martin Obara				5/5	4/4	
Emily Obonyo			12/12		4/4	
William Ndiritu				5/5	4/4	
Boaz Chimasia		4/4	12/12			
Clemence Wawuda		4/4	9/12			
Kevin Maina						5/5
Isaac Mwangi						5/5
Thomas Ondara						5/5

The Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for the leadership and management of the Society. The Board delegates the responsibility for the execution and administration of operations to the CEO, and this includes responsibility for implementing Society's strategic direction and managing Society's day-to-day operations. The scope, and specific limits, of the authority delegated to the CEO and the Management team are clearly documented. These delegations balance effective oversight with appropriate empowerment and accountability of management.

All members of the management staff are appointed by the Board of Directors. The management team oversees day to day operations in their respective functions. They meet on monthly basis to review the operations of the Society. The team is comprised of the following;

William Pudha - CEO
Edward Obilo - Finance Manager
Caroline Ogutu - Credit Manager
Cynthia Mwakalama - Operations and HR Manager
Wycliffe Mutuli - IT Manager
Elizabeth Ouko - Internal Audit Manager

Procurement

Procurement in the Sacco is guided by the procurement laws and best practice. The Sacco has a Procurement 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 except for the Internal Audit department who performs the oversight role.

Organizational values and code of conduct

The entire Ushuru Sacco fraternity (Board, Supervisory committee and staff) work to deliver on the vision and strategic plan of the Sacco and subscribe to the set "Ushuru Sacco code of conduct" which has been anchored on best practises and statutory requirements. The team continuously practises the four key Society values which define what the Sacco promises to abide by namely; Simple, Proficient, Ethical and cohesive. In this regard every individual is expected not to engage in any activity that puts into question the Society's reputation.

Conflicts of interest

Directors have a duty to not place themselves in a position which gives rise to a real or substantial possibility of conflict of interest or duty in relation to any matter which is or is likely to be brought before the Board. This entails not engaging, directly or indirectly, in any business that competes or conflicts with the Society's business. All Directors are required to disclose any actual, potential or perceived conflicts of interest prior to their appointment and on an ongoing basis. 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.

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.

Information Technology/Automation

The Sacco has upgraded the website to meet standards and expectations of the members and members can now access quick services via our website. Additionally, the Sacco embraced online loan guarantor ship during the year to easen the loan application processes especially for members who are at the Border Zones.

Cyber threats where criminals are constantly making use of information technology to perpetrate illegal acts, are increasing significantly. As a mitigation, the company has an efficient firewall and back up procedures in place and these have been fully tested. Members are encouraged to be vigilant and cautious on information sharing while accessing out platforms through the ICT infrastructure. We continue to enhance the security infrastructure and measures to safeguard the Sacco from such risks on continuous basis. We are glad that the SACCO has not suffered any loss.

External Auditor

The role of the external auditor is to provide an independent opinion that the Society's financial reports are true and fair, and comply with applicable regulations. Ushuru Sacco's external auditor Mazars, who was engaged at the beginning of the year 2019. The Audit Committee is responsible for making recommendations to the Board on the selection, appointment, evaluation and removal of the Society's external auditor. The external auditor must refuse to accept engagements involving non-audit services under which the auditor assumes the role of management, becomes an advocate for the Society, or offers services that could be reviewed as part of the audit. The external auditor attends the Society's annual delegates meeting (ADM) and is available to answer delegates' questions about the conduct of the audit and the preparation and content of the auditor's report.

Code of Conduct

The Board recognizes the importance of being an inclusive employer and the value of a safe, fair and respectful workplace where there is no room for intolerance. Ushuru is a place where teamwork is valued and diversity is celebrated. The Board is committed to embracing diversity and creating an environment where everyone can reach their full potential across the Society.

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 Company 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.

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 and paid monthly, 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.

SOCIETY INFORMATION

DIRECTORS	Mr. Isaac Kiprop	National Chairman
	Mr. Onesmus Nzuki	National Vice Chairman
	Mr. Domnic Mokaya	National Hon. Secretary
	Mr. Samuel Wachiuri	National Treasurer
	Mr. Martin Obara	Director
	Ms. Emily Obonyo	Director
	Mr. Boaz Chimasia	Director
	Mr. William Ndiritu	Director
	Mr. Clemence Wawuda	Director
	Mr. William Pudha	Chief Executive Officer
SUPERVISORY COMMITTEE	Mr. Kevin Maina	Chairman
	Mr. Thomas Ondara	Secretary
	Mr. Isaac Mwangi	Member

REGISTERED OFFICE

Ushuru Co-operative Savings and
Credit Society Limited
Ushuru Sacco Centre
P.O. Box 52072, 00200
Nairobi, Kenya

PRINCIPAL BANKERS

The Co-operative Bank of Kenya Limited
Head Office
The Co-operative Bank of Kenya Limited,
Co-operative Bank House Haile Selassie Avenue
P.O. Box 48231-00100
Nairobi Kenya

National Bank of Kenya Limited
Head Office, National Bank Building
Harambee Avenue
P.O Box 72866-00200
Nairobi, Kenya

LEGAL ADVISOR

J.Louis Onguto Advocates
Flamingo Towers, 2nd Floor, Mara road, Upperhill
P.O. Box '41376-00100
Nairobi, Kenya

INDEPENDENTAUDITOR

RONALDS LLP
Certified Public Accountants (K)
136 Manyani East Road, off-Waiyaki Way
P.O. Box 41331 (00100)
Nairobi, Kenya

REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2022 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. The Society was licensed as a Deposit taking Sacco effective 1st January 2020.

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. 543 million to Shs. 642 million. The increase is directly attributed to growth in the loan book to members compared to prior year and investment of excess liquid cash in high earning ventures like government securities and fixed income unit trusts. Surplus before tax increased from Shs.107.9 million to Shs. 143.8 million compared to prior year.

As at 31 December 2022, the net asset position of the society was Shs. 854.7 million compared to Shs. 710.5 million as at 31 December 2021.

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 margins, 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 20 of the financial statements.

Share capital

The issued and paid up share capital of the society was increased during the year from Shs.272.8 million to Shs. 291.2 million.

Dividends and interest

The management committee recommends payments of first and final dividend of 15% (2021: 0%) on weighted share balance. They also recommend 10.2% (2021: 10%) on weighted members deposit and 7% (2021: 7%) on weighted members 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.

REPORT OF THE DIRECTORS' (CONT'D)

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, Ronalds LLP, have expressed willingness to continue in office in accordance with the Sacco Societies Act No. 14 of 2018. 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: 17th February 2023

Chairman ISAAC KIPROP

FINANCIAL AND STATISTICAL INFORMATION

		As at 31 December	
Membership		**2022**	**2021**
		Numbers	**Numbers**
At start of the year		7,571	7,152
Members who joined within the year		763	660
Withdrawals during the year		(219)	(241)
At end of the year		**8,115**	**7,571**
Comprising:	- Active	8,073	7,513
	- Dormant	42	58
		8,115	**7,571**
Regional offices		**4**	**4**
Number of employees		**27**	**28**

	2022	**2021**
Financial	**Shs**	**Shs**
Total assets	6,122,334,170	5,436,211,329
Members' deposits	4,619,712,658	4,171,346,151
Loans and advance to members	4,287,333,839	3,734,819,701
Provision for loan losses	54,702,455	43,358,799
Other financial assets	37,752,364	38,423,389
Total revenue	717,569,793	609,868,602
Total interest income from members	540,483,537	460,365,812
Total expenses	594,560,756	522,685,167
Investment shares	291,174,220	272,835,552
Statutory reserve	110,616,931	86,015,124
Appropriation account	302,750,747	252,535,865
Core capital	784,746,844	683,591,487
Institutional capital	493,572,624	410,755,935

Key ratios:	**Statutory**	**2022**	**2021**
		%	**%**
Capital adequacy ratios			
Core capital/Total assets	10%	12.8%	12.6%
Core capital/Total deposits	8%	17.0%	16.4%
Institutional capital/Total assets	8%	8.1%	7.6%
Liquidity ratio			
Liquid assets/Total deposits and short-term liabilities		25%	29%
Operating efficiency/loan quality ratios			
Total expenses/Total revenue		83%	86%
Other expenses/Total revenue		21%	22%
Interest to members deposits/Total revenue		62%	64%
Interest on members deposits		10.2%	10%
Interest rate on members' savings		7.0%	7.0%
Dividend rate on members share capital		15%	0%
Total delinquent loans/Gross loan portfolio		1.40%	1.65%

STATEMENT OF DIRECTOR' RESPONSIBILITIES

The Co-operative Societies Act, Cap. 490 and Sacco Societies Act No. 14 of 2018 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,the requirements of the Co-operative Societies Act, Cap. 490 and the Sacco Societies Act No. 14 of 2018. 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 Sacco Societies Act No. 14 of 2018. 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 2022 and of the society's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Co-operative Societies Act, Cap. 490 and Sacco Societies Act No. 14 of 2018.

In preparing these financial statements the directors have assessed the society's ability to continue as a going concern as detailed in Note 1 to the financial statements. 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 ___________ 2023 and signed on its behalf by:

__________________ **ISAAC KIPROP - CHAIRMAN**

__________________ **SAMUEL WACHIURI -TREASURER**

__________________ **DOMINIC MOKAYA - SECRETARY**

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

Report on the financial statements

Opinion

We have audited the accompanying financial statements of Ushuru Savings And Credit CoOperative Society Limited set out on pages 29 to 68 which comprise the statement of financial position as at 31st December 2022, statement of profit or Loss and other 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.

In our opinion, the financial statements give a true and fair view of the state of the Society's financial affairs as at 31st December 2022, the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenya Cooperative Societies Act Cap 490 and the Sacco Societies Act No. 14 of 2018.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the International Ethics Standards Board for Accountants (IESBA), Code of Ethics for Professional Accountant. We have fulfilled our other ethical responsibilities in accordance with IESBA code and in accordance with other ethical requirements applicable to performing the audit of financial statements in Kenya.

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 year. These matters were addressed in the context of our audit of the society financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following were the Key audit matter to communicate in our report.

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Ronalds

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

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How the audit matter was addressed
Systems Migration, Review and Member Data completeness The Society transitioned to Micro soft Navision software 2016 in October 2022. The Society uses the Dynamics 365 business center. There has not been a post implementation review of the system to validate the data migrated to the new system in terms of authenticity, accuracy and completeness of the same. Furthermore, included in the system is member data with incomplete or inaccurate information such as phone number, KRA pin, ID. Numbers etc. We considered this matter in our professional judgement, to be of significance during the audit.	We performed tests on accounts balances based on materiality as well as an assessment on the operating effectiveness of the controls over the integrity of the system that were relevant to financial reporting. We reviewed physical documents on sample basis to ascertain member details. We relied on the Management representations on measures taken to clean up the migrated member data in the system.
Contingent Liabilities There exist various matters in Court that were still pending litigation as at the end of the financial year. These matters were of significant importance during the audit as the outcome of the same may have a material impact on the results reported by the Society. We experienced complexity in assessing the possible outcome of the pending Legal matters and the expected adjustments in the books for contingent liabilities.	We circularized the Society lawyers and obtained legal opinion with regards to the possible outcome of the court matters. We also obtained committee members representation in order to mitigate the risk related to this contingent liabilities.
IFRS 9- Financial Instruments The Society has loans and advances issued amounting to Kshs 4,232,631,384. However, there is no IFRS model and supporting workings in place used to compute the expected credit loss and provision for the same. Therefore, there is complexity in determining the level of accuracy and reasonableness of the management estimates with regards to expected credit loss.	We relied on management representation regarding the provisions accuracy. We reviewed and assessed the reasonableness of management's estimates provided. We assessed the sufficiency of the provisions made against the Sasra guidelines for the same

Other information

The Directors are responsible for other information. The other information comprises the budget and the chairman's report included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have report in this regard.

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

Directors' Responsibility for the Financial Statements.

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), the requirements of the Kenya Cooperative Societies Act Cap 490 and the Sacco Societies Act No. 14 of 2018.This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, they 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 they either intend to liquidate the Society's or to cease operations, or have no realistic alternative but to do so. The Kenya Cooperative Societies Act also requires the Directors to ensure that the Society maintains proper books of accounts which are in agreement with the statement of profit or loss and other comprehensive income and statement of financial position

Auditors' Responsibility for the audit of the financial statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA's). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual report and financial statements are free from material misstatement.

As part of an audit in accordance with International Standards on Auditing (ISA's), 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 controls.
- 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF USHURU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED (CONTINUED)
AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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

Report on other legal requirements

As required by the Kenya Cooperative Society's Act and the Sacco Societies Act No. 14 of 2018, we report to you that the financial statements are in agreement with the books of account kept by the Society and that, based on our audit, nothing has come to our attention that causes us to believe that the Society's business has not been conducted:

(i) In accordance with the provisions of the Kenya Co-operative Society's Act and the Sacco Societies Act No. 14 of 2018.

(ii) In accordance with the Co-operatives Societies objectives, by- laws and any other resolutions made by the Society at a general meeting.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Ronald N. Bwosi - P/No.1865.

Ronalds LLP

For and on behalf of Ronalds LLP
Certified Public Accountants (K) ____________________
Nairobi

RONALDS LLP
20 FEB 2023
P.O. Box 41331-00100, NAIROBI
CERTIFIED PUBLIC ACCOUNTANTS

C.P.A Ronald
Practising No. P/

Date 28/02/2023

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136 Manyani East Road, Off-Waiyaki Way
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

Revenue	Notes	2022 Shs	2021 Shs
Interest income:			
Interest on loans and advances	2 (a)	540,483,537	460,365,812
Other interest income	2 (b)	101,265,504	82,657,848
Total interest income		641,749,041	543,023,660
Interest expenses	2 (c)	(441,509,259)	(387,996,826)
Net interest income		200,239,782	155,026,834
Other operating income	2 (d)	75,820,752	66,844,942
Impairment credit/(charge) on loan and advances	8	(11,343,656)	(10,802,725)
Governance expenses	23	(28,095,420)	(23,245,825)
Administrative expenses	24	(77,604,367)	(69,009,047)
Other operating expenses	25	(15,213,052)	(10,890,121)
Surplus before tax		143,804,039	107,924,058
Income tax expense	5	(20,795,002)	(20,740,623)
Surplus for the year		**123,009,037**	**87,183,435**
Other comprehensive income:			
Items that will not be reclassified subsequently to surplus or deficit:			
Change in fair value of other financial assets at fair value through other comprehensive income	3	(671,025)	(7,045,769)
Fair value gain on investment property	10	1,000,000	-
Total comprehensive income		123,338,012	80,137,666
Statutory reserve 20%		(24,601,807)	(17,436,687)
		98,736,205	62,700,979
Honoraria and staff bonus	26	(6,030,000)	(5,390,000)
Total comprehensive income after honoraria and bonus		**92,706,205**	**57,310,979**

The notes on pages 29 to 68 form an integral part of these financial statements.

Report of the Independent Auditor - Pages 25 - 28.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 Shs	2021 Shs
Assets			
Cash and bank balances	6	1,135,824,603	1,190,651,488
Receivables and prepayments	7	208,374,642	62,642,208
Available assets for Sale	18(i)	34,000,000	-
Loans and advances to members	8	4,232,631,384	3,691,460,902
Other financial assets	9	37,752,364	38,423,389
Investment property	10	337,500,000	336,500,000
Property and equipment	11	114,085,853	115,482,806
Intangible assets	12	22,165,324	1,050,536
Total assets		**6,122,334,170**	**5,436,211,329**
Liabilities			
Other payables	13	37,714,881	38,848,849
Interest due on members deposits	14	441,509,259	387,996,826
Member deposits	15 a	4,619,712,658	4,171,346,151
FOSA Savings	15 b	166,378,835	118,670,126
Tax payable	4	2,371,498	8,860,147
		5,267,687,131	4,725,722,099
Financed by:-			
Share capital	16	291,174,220	272,835,552
Statutory reserve	17 (i)	110,616,931	86,015,124
Appropriation reserve	17 (ii)	302,750,747	252,535,865
RMF reserve fund	17 (iii)	80,204,946	72,204,946
Revaluation reserve	17 (iv)	71,987	579,487
Fair value reserve	17 (v)	25,647,231	26,318,256
Proposed dividend	17 (vi)	43,669,848	-
Loan Loss Reserve	17(vii)	511,129	-
		854,647,039	710,489,230
Total liabilities and capital		**6,122,334,170**	**5,436,211,329**

The financial statements on pages 10 to 47 were approved and authorized for issue by the board of directors on 17th February 2023 and were signed on its behalf by:

______________________ **ISAAC KIPROP - CHAIRMAN**

______________________ **SAMUEL WACHIURI -TREASURER**

______________________ **DOMINIC MOKAYA- SECRETARY**

APPROVED for publication and presentation to AGM or ADM subject to observations issued
21 FEB 2023
SIGN:
THE SACCO SOCIETIES REGULATORY AUTHORITY

The notes on pages 29 to 68 form an integral part of these financial statements.

Report of the Independent Auditor - Pages 25 - 28

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital Shs	Statutory reserve Shs	Appropriation reserve Shs	RMF reserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Loan Loss Reserve Shs	Total Shs
AS at 01.01.2022		272,835,552	86,015,124	252,535,865	72,204,946	579,487	26,318,256	-	-	710,489,230
Total comprehensive income:		-	-	123,009,037	-	-	(671,025)	-	-	122,338,012
Transfer of depreciation on revaluation		-	-	507,500	-	(507,500)	-	-	-	-
Fair value gain				1,000,000		-				1,000,000
Honoraria and staff bonus	26	-	-	(6,030,000)	-	-	-	-	-	(6,030,000)
Transfer to statutory reserve	17 (i)	-	24,601,807	(24,601,807)	-	-	-	-	-	-
RMF Reserve Transfer		-	-	-	8,000,000				-	8,000,000
Revaluation fee	13	-	-	-	-	-	-	-	-	-
Proposed Dividend		-	-	(43,669,848)	-	-	-	43,669,848	-	-
Loan Loss Reserve Fund	17(vii)								511,129	511,129
Transactions with owners:									-	-
Issue of shares	16	18,338,668	-		-	-	-	-	-	18,338,668
As at 31.12.2022		291,174,220	110,616,931	302,750,747	80,204,946	71,987	25,647,231	43,669,848	511,129	854,647,039

The notes on pages 29 to 68 form an integral part of these financial statements.

Report of the Independent Auditor - Pages 25 - 28

STATEMENT OF CHANGES IN EQUITY (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital Shs	Statutory reserve Shs	Appropria-tion reserve Shs	RMF Reserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Total Shs
As at 01.01.2021		257,292,052	68,578,437	187,671,617	67,204,946	1,366,987	33,364,025	-	615,478,064
Total comprehensive income:		-	-	87,183,435	-		(7,045,769)	-	80,137,666
Transfer of depreciation on revaluation		-	-	507,500	-	(507,500)	-	-	-
Honoraria and staff bonus				(5,390,000)		-			(5,390,000)
Transfer to statutory reserve	17 (iv)	-	17,436,687	(17,436,687)	-	-	-	-	-
RMF Reserve Transfer		-	-	-	5,000,000	-	-	-	5,000,000
Revaluation fee	13	-	-	-	-	(280,000)	-	-	(280,000)
Transactions with owners:						-			-
Issue of shares	16	15,543,500	-	-	-	-	-	-	15,543,500
As at 31.12.221		**272,835,552**	**86,015,124**	**252,535,865**	**72,204,946**	**579,487**	**26,318,256**	**-**	**710,489,230**

The notes on pages 29 to 68 form an integral part of these financial statements.

Report of the Independent Auditor - Pages 25 - 28

STATEMENT OF CASH FLOWS

	Notes	2022 Shs	2021 Shs
Cash from operating activities			
Interest income	2 (a)	540,483,537	460,365,812
Other interest income	2 (b)	101,265,504	82,657,848
Other operating income	2 (d)	67,530,707	62,934,017
Interest payments	14	(387,996,826)	(318,238,304)
Payment to employees and suppliers		(116,075,574)	(98,174,753)
Net cash from operating activities		205,207,348	189,544,620
Cash (used in) loans and advances and other receivables			
Advances to members	8	(3,408,734,804)	(2,924,016,466)
Loan repayments	8	2,856,220,666	2,441,060,645
Increase in receivables and prepayments		(151,768,524)	8,195,408
Cash from deposits and other payables			
Deposits received	15	5,910,465,286	4,389,802,228
Withdrawals	15	(5,414,390,070)	(3,963,652,465)
Increase in other payables		(10,476,168)	(14,949,721)
Net cash from/(used in) operating activities before income taxes		(13,476,266)	125,984,249
Income tax paid		(27,283,651)	(15,279,887)
Net cash (used in)/from operating activities		(40,759,917)	110,704,362
Investing activities			
Purchase of property and equipment	11	(1,577,576)	(1,297,974)
Purchase of intangible assets	12	(22,165,324)	(1,240,016)
Settlement to UIC on Milimani plots		(20,514,418)	-
Dividends received	2(d)	3,340,553	3,910,925
Net cash (used in) investing activities		(40,916,765)	1,372,935
Financing activities			
Proceeds from shares issue	16	18,338,668	15,543,500
Loan Loss Recovered		511,129	-
RMF Proceeds		8,000,000	5,000,000
Net cash from financing activities		26,849,797	20,543,500
Increase/(decrease) in cash and cash equivalent		(54,826,885)	132,620,797
Cash and cash equivalents at start of year		1,190,651,488	1,058,030,691
Cash and cash equivalents at end of year	6	**1,135,824,603**	**1,190,651,488**

The notes on pages 29 to 68 form an integral part of these financial statements.

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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 are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings (Kshs), which is also the functional currency, rounded to the nearest shilling. The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

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 20.

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.

This year 2022 has seen no effect in the reported cases of Covid-19. This has afforded the Society much relief from its adverse previous effects. The Society registered a significant increase in loans uptake largely due to leverage in Technology that has become the new normal occasioned by Covid- 19. There are good prospects of improved performance going into the future.

b) Changes in accounting policy and disclosures

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

1. New and amended standards adopted by the Society

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2022:

Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFR S16 Interest Rate Benchmark reform - Phase 2

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the Society.

The amendments require entities to update the effective interest rate to reflect the change to the alternative risk-free rates (ARRs), instead of derecognizing or adjusting the carrying amount of financial instruments, for changes required by the reform if the transition from the IBOR rate to the ARR is as a direct consequence of the reform and on an economically equivalent basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 ACCOUNTING POLICIES(CONTINUED)

B) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES(CONTINUED)

I. NEW AND AMENDED STANDARDS ADOPTED BY THE SOCIETY

AMENDMENTS TO IFRS 7, IFRS 9, IAS 39, IFRS 4 AND IFR S16 INTEREST RATE BENCHMARK REFORM - PHASE 2 (CONTINUED)

The amendment also provides specific hedge accounting relief, including that an entity will not have to discontinue hedge accounting solely because it makes changes required by the reform to hedge designations and hedge documentation, if the hedge meets the other hedge accounting criteria. The amendments also require entities to provide additional information about new risks arising from the reform and how it manages the transition to ARRs. The Society will transition to ARRs as each interest rate benchmark is replaced. The practical expedient to update the effective interest rate to reflect the change to the ARR was applied to loans and advances. Any other changes to the contractual cash flows that are as a result of the interest rate benchmark reform are accounted for in terms of the Society's modification policy.

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

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no impact on the Society. The Society has not to adopted IFRS 16.

ii. Standards, interpretations and amendments issued but not effective and have not been early adopted by the Society.

Title	Key requirements	Effective date
Reference to the Conceptual Framework Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022

1 ACCOUNTING POLICIES(CONTINUED)
B) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES(CONTINUED)
II. STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE SOCIETY.

Title	Key requirements	Effective date
Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2022 [possibly deferred to 1 January 2023]

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 ACCOUNTING POLICIES(CONTINUED)

B) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES(CONTINUED)

II. STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE SOCIETY.

Title	Key requirements	Effective date
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. ** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalized its research project on the equity method.	N/A
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four- step materiality process' described in IFRS Practice Statement 2.	1 January 2023
Definition of Accounting Estimates Amendments to IAS 8	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.	'1 January 2023

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgements

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.

- Measurement of expected credit losses (ECL):

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- **Stage 1** - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- **Stage 2** - When there is a significant increase in credit risk since initial recognition, these nonimpaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

c) Key sources of estimation uncertainty

- Measurement of expected credit losses (ECL) (continued):

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will payments that are more than 90 days overdue will represent credit impairment (stage 3). The society uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

- Fair value of other financial instruments

In estimating the fair value of an asset or a liability, the society uses market-observable data to the extent it is available. Where level 1 inputs are not available, the society makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the

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

- Useful lives of property and equipment and intangible assets

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

d) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the performance of services, in the ordinary course of business.

The society recognizes 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 the effective 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 receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. 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 all other premiums or discounts.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee and commission income

Fees and commission income, including account servicing fees and mobile banking commissions 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 receive 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 out-standing and the effective interest rate applicable.

e) Property and equipment

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

Land and buildings and 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 derecognized. 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 (%)
Land and building	Nil
Motor vehicle	25
Computers and accessories	33.3
Equipment, 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 or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

f) 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.

g) 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 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 licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis at the rate of 33.33% per annum.

h) 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).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

The society's financial assets fall into the following categories:

Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest (SPPI), and that are not designated at Fair Value Through Profit or Loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'interest and similar income' using the effective interest rate method.

Fair Value Through Other Comprehensive Income (FVTOCI): Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

Fair Value Through Profit or Loss (FVTPL): Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss.

For the purpose of SPPI the test, principal is the fair value of the financial asset at initial recognition That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement will not comprise SPPI.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The society determines the business models at a level that reflects how societies financial assets are managed together to achieve a particular business objective. The society's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The society has more than one business model for managing its financial instruments which reflect how the society manages its financial assets in order to generate cash flows. The society's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The society considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the society does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The society takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and how managers of the business are compensated (e.g. whether the compensation is based on the fair
- value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the society determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The society reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the society has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Impairment

The society recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents
- Loans and advances
- Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit loss (ECL), i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument. (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 21.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the society under the contract and the cash flows that the society expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the society if the holder of the commitment draws down the loan and the cash flows that the society expects to receive if the loan is drawn down.

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the society expects to receive from the holder, the debtor or any other party.

The society measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 20 (b), including details on how instruments are grouped when they are assessed on a collective basis.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- contractual payments that are more than 90 days overdue;
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's
- financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused financial assets to become credit-impaired. The society assesses whether all new and revised standards and interpretations that have become effective for the first time credit- impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the society considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding .

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The society renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The society has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified, the society assesses whether this modification results in derecognition. In accordance with the society's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the society considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the society deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
I) FINANCIAL INSTRUMENTS (CONTINUED)

The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated - credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The society monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the society determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the society calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the society measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The society derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the society neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the society recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the society retains substantially all the risks and rewards of ownership of a transferred financial asset, the society continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the society retains an option to repurchase part of a transferred asset), the society allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/

loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the society has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the society determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.The society may apply enforcement activities to financial assets written off. Recoveries resulting from the society's enforcement activities will result in impairment gains.

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

Management classifies financial assets as follows:

unquoted shares are classified as 'Change in fair value of other financial assets at fair value through other comprehensive income' 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 and other receivables are carried at amortised cost.

Financial liabilities

The society's financial liabilities which include other payables, interest due and members deposits fall into the following categories:

Financial liabilities measured at amortised cost: These include other payables, interest due, members deposits and other creditors and accruals. 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 profit or loss under finance costs under the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

All financial liabilities are classified as current liabilities unless the society has an unconditional right to 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.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

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.

Provisions in the Act, regulations or the Sacco by-laws impose unconditional prohibitions on the 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 revaluation of other financial assets measured at fair value through other comprehensive income. 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.

- Appropriation reserve

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 Monarch. 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.

		2022 Shs	2021 Shs
2.	**Revenue**		
a)	**Interest income**		
	Interest on loans and advances to members		
	BOSA	468,460,658	419,378,246
	FOSA	72,022,879	40,987,566
	Total interest income	540,483,537	460,365,812
b)	**Other interest income Interest on Saving reserve account**	66,268	62,437
	Interest on Call Deposit	3,453,287	5,588,054
	Interest on fixed deposit account	61,469,494	29,872,411
	Interest on investment-UIC	4,949,492	3,000,000
	Interest Treasury main ac	8,754,860	2,770,536
	Interest on term deposits	22,572,103	41,364,410
		101,265,504	82,657,848
	Total interest income	641,749,041	543,023,660
c)	**Interest expenses**		
	Interest on members deposits Note 14	429,082,380	375,564,768
	Interest on special savings Note 14	12,426,879	12,432,058
	Total interest expense	441,509,259	387,996,826
	Net interest income	200,239,782	155,026,834
d)	**Other operating income**		
	Rental income	7,354,376	5 292,000
	Loan clearance commission	34,149,310	30,265,374
	Bankers cheque commission	3,080	3,256
	Dividends	3,340,553	3,910,925
	Entrance fee	907,000	918,619
	FOSA Income	7,380,589	4,030,372
	Income from RMF (Note 21)	22,216,380	18,977,370
	Miscellaneous income	469,464	3 447,026
	Total other operating income	75,820,752	66,844,942
3.	**Fair value (loss)/gain on available for sale financial assets**		
	(Loss)/gain on valuation of financial assets during the year comprise the following:		
	Co-opholdings Co-operative Society Limited shares	(671,025)	(7,045,769)

	2022 Shs	2021 Shs
4. Tax payable/recoverable		
Balance brought forward	8,860,147	3,399,411
Tax paid	(8,860,147)	-
Add: tax charge for the year	20,795,002	20,740,623
Less: Instalment tax paid	(18,423,504)	(15,279,887)
Tax due/recoverable	2,371,498	8,860,147
5. Tax		
Current tax	20,795,002	20,740,623
	20,795,002	20,740,623
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	143,804,039	107,924,058
Tax calculated at a tax rate of 30% (2020: 30%) Tax effects of:	43,141,213	32,377,217
Other tax related Expenses	-	3,991,991
- expenses not deductible for tax purposes	172,129,726	150,583,364
- income not subject to tax	(194,475,937)	(166,211,948)
Tax charge	20,795,002	20,740,623
6. Cash and cash equivalents		
Cash and cash equivalents at the end of the year comprise:-		
Cash in hand	98,143,511	39,720,860
Cash at bank	48,855,925	221,923,554
Treasury Bills/Bonds	130,000,000	102,717,796
Short term Investments	858,825,167	826,289,278
Total	1,135,824,603	1,190,651,488

As Held in:	**2022**	**2021**
a Cash at Hand	**Shs**	**Shs**
Safaricom Paybills	88,527,235	25,373,776
Cash held in FOSA	9,616,276	14,347,084
Total Cash at hand	**98,143,511**	**39,720,860**

6. Cash and cash equivalents (continued)

b Cash at Bank

	2022 Shs	2021 Shs
Co-operative Bank-Current A/C	19,617,769	201,473,731
Co-operative Bank-RMF Saving A/C	2,968,013	2,796,415
Co-operative Bank-Current FOSA A/C	2,063,173	1,550,200
Nationak Bank of Kenya	17,783,175	13,779,413
KCB Staff Mortgage	6,093,395	1,993,395
Family Bank	330,400	330,400
Total Cash at Bank	**48,855,925**	**221,923,554**
c Treasury Bonds		
Central Bank of Kenya	130,000,000	102,717,796
Total	**130,000,000**	**102,717,796**
d Short Term Investments		
CIC Money Market	216,413,330	388,331,294
Madison Investment Management Ltd	625,962,906	429,872,411
KCB Investment A/C	9,997,671	2,955,304
Co-perative Bank Reserve A/C	1,146,195	1,079,927
KUSCCO Central Finance	5,305,065	4,050,342
	858,825,167	**826,289,278**
Grand Total	**1,135,824,603**	**1,190,651,488**

The weighted average effective interest rate on short-term bank deposits at year-end was 10.4% (2021:10.4%).

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposit held at call with banks and investment 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 decreased cash balance, this is attributed to the fact that our main payroll submitted the cash after year end thereby diminishing our cash inflow and increasing the amount receivable from employers.

For the purpose of the statement cash flows, the year end cash and cash equivalents comprise the above:

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

7. Receivables and prepayments	2022. Shs	2021 Shs
Receivables	168,739,491	14,806,153
Insurance premium prepaid	5,443,397	4,182,000
Prepayments	5,530,810	6,856,074
Deceased loans due from insurance	2,748,803	6,709,641
Recoverable Deposit Levy Fund	6,994,151	5,134,260
Milimani Plot Debtors (Note 18(i))	18,917,990	24,954,080
	208,374,642	**62,642,208**
Ageing of receivables		
0 - 30 days	189,456,652	37,688,128
over 30 days	18,917,990	24,954,080
Total	**208,374,642**	**62,642,208**

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

The deposit levy of Kshs.6,994,151 for the current year has been classified as a receivable. This amount will be deducted from declared interest on deposits for the year 2022 when payable.

Milimani plot debtors represents the amount unpaid by members who acquired plots. Ushuru Sacco Society took over the Milimani plots project arising from an agreement made by management of both UIC and the Sacco following a directive by SASRA to delink the operations of the two Societies.

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 widely held.

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

Loans and advances	2022 Shs	2021 Shs
At start of year	3,734,819,701	3,275,732,047
Granted during the year	3,408,734,804	2,924,016,466
Repaid during the year	(2,856,220,666)	(2,464,928,812)
	4,287,333,839	3,734,819,701
Provision for loan losses	(54,702,455)	(43,358,799)
At year end	4,232,631,384	3,691,460,902

Year ended 31 December 2022				
Ageing of past due loans	**Amount**	**%ge**	**Accounts**	**Required provision**
Performing	4,227,173,127	1%	9704	42,271,731
Past due - 30 days	33,594,873	5%	95	1,679,744
Past due - up to 180 days	18,566,196	25%	81	4,641,549
Past due - up to 360 days	3,780,424	50%	21	1,890,212
Past due - Over to 360 days	4,219,219	100%	21	4,219,219
	4,287,333,839		9922	54,702,455

Year ended 31 December 2021				
Ageing of past due loans	**Amount**	**%ge**	**Accounts**	**Required provision**
Perfoming	3,716,075,370	1%	9001	37,160,754
Past due - 30 days	3,913,720	5%	26	195,686
Past due - up to 180 days	7,162,497	25%	36	1,790,624
Past due - up to 360 days	6,912,757	50%	33	3,456,379
Past due - Over to 360 days	755,357	100%	3	755,357
	3,734,819,701		9099	43,358,799

Movement in provisions for impairment of loans	2022 Shs	2021 Shs
At start of year	43,358,799	56,424,241
- IFRS 9 transition adjusment	-	-
At start of year - as restated	43,358,799	56,424,241
Loans written off	-	(23,868,167)
Expected credit loss provision	11,343,656	10,802,725
At end of year	54,702,455	43,358,799

The Kshs.11.3million is the increase arising from provision of loan loss which has been charged to the income statement.

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:

8. Loans to Insiders	2022 Shs	2021 Shs
Total loans outstanding at end of year:	122,339,219	100,283,007
Loans to directors	30,251,392	19,702,108
Loans to regional officials	19,471,140	21,632,071
Loans to supervisory committee members	7,703,172	8,883,246
Loans to other employees	64,913,515	50,065,582
	122,339,219	100,283,007

9. Other financial assets

Other financial assets comprise the following:		
At start of year	38,423,389	45,469,158
Fair value gain/(loss)	(671,025)	(7,045,769)
	37,752,364	**38,423,389**

Fair value through other comprehensive income

Co-opholdings Co-operative Society Limited 3,355,128 shares @7.20	24,156,922	24,827,947
KUSCCO ordinary 101,800 shares @100	10,180,002	10,180,002
Co-operative Insurance Society Limited 975,840 shares @3.50	3,415,440	3,415,440
Total other financial assets	**37,752,364**	**38,423,389**
Income from other financial assets at fair value through other comprehensive (Note 2d)	3,340,553	3,910,925

The fair values of other 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.

	Level 2 Shs	Level 3 Shs	Total Shs
Year ended 31 December 2022			
Fair value through other comprehensive income	27,572,362	10,180,002	37,752,364
Year ended 31 December 2021			
Fair value through other comprehensive income	28,243,387	10,180,002	38,423,389

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 other financial assets are considered to be impaired and are dominated in Kenya shillings(Shs.).

10. Investment property	Land Shs	Saachi Plaza Shs	Ushuru Sacco centre Shs	2022 Shs	2021 Shs
At start of year	71,250,000	25,000,000	240,250,000	336,500,000	336,500,000
Fair value (loss)/gain	1,000,000.00	-	-	1,000,000.00	-
At end of year	**72,250,000**	**25,000,000**	**240,250,000**	**337,500,000**	**336,500,000**

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 Legend 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 'nonobservable 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. Property and equipment

Year ended 31 December 2022

	Land Shs	Buildings Shs	Motor vehicles Shs	Computers Shs	Equipment, furniture and fittings Shs	Total Shs
Cost						
At start of year	23,750,000	78,750,000	2,030,000	15,485,042	20,728,750	140,743,792
Additions	-	-	-	346,044	1,231,532	1,577,576
Disposal/Impairement	-	-	-	-	(2,361,514)	(2,361,514)
At end of year	23,750,000	78,750,000	2,030,000	15,759,003	19,598,768	139,959,854
Comprising:						
Cost	-	23,750,000	-	15,759,003	19,598,768	59,107,771
Revaluation	23,750,000	55,000,000	2,030,000	-	-	80,780,000
	23,750,000	78,750,000	2,030,000	15,759,003	19,598,768	139,887,771
Accumulated depreciation						
At start of year	-	-	1,050,000	12,009,369	12,201,617	25,260,986
Adjustment/ Impairment	-	-	-	-	(2,361,514)	(2,361,514)
Charge for the year	-	-	507,500	1,248,628	1,218,401	2,974,529
At end of year	-	-	1,557,500	13,257,997	11,058,504	25,874,001
Net book values	23,750,000	78,750,000	472,500	2,501,006	8,540,264	114,085,853
Year ended 31 December 2021						
Cost						
At start of year	23,750,000	78,750,0001	2,030,000	15,138,998	19,776,820	139,445,818
Additions		-	-	346,044	951,930	1,297,974
Disposals		-		-		
At end of year	23,750,000	78,750,0001	2,030,000	15,485,042	20,728,750	140,743,792
Comprising:						
Cost	-	23,750,000	-	‘” 485,042	2 1,728,750	59,963,792
Revaluation	23,750,000	55,000,0001	2,030,000	-	-	80,780,000
	23,750,000	78,750,000	2,030,000	15,485,042	20,728,750	140,743,792
Accumulated depreciation						
At start of year	-	-	542,500	10,297,471	10,983,455	21,823,426
Charge for the year	-	-	507,500	1,711,898	1,218,162	3,437,560
At end of year	-	-	1,050,0001	12,009,369	12,201,617	25,260,986
Net book values	**23,750,000**	**78,750,000**	**980,000**	**3,475,673**	**8,527,133**	**115,482,806**

As at December 2017, Motor vehicle had been fully depreciated but was still in good condition. It was then professionally revalued on 31 December 2018 by Automobile Association of Kenya on the basis of open market value. The book value of the motor vehicle was adjusted to the revaluations and the resultant deficit was debited to statement of profit or loss.

Refer to Note 10 for disclosure of the fair value for land and buildings.

12. Intangible assets (software)

	2022 Shs	2021 Shs
Cost		
At start of year Additions	7,123,082 22,165,324	5,883,066 1,240,016
At end of year	29,288,406	7,123,082
Accumulated amortisation		
At start of year	6,072,546	5,548,066
Amortisation charge	1,050,536	524,480
At end of year	7,123,082	6,072,546
Net book value	**22,165,324**	**1,050,536**

Amortisation of Shs. 1,050,536 (2021: Shs.524,480) is included in other operating expenses in the statement of comprehensive income.

13. Other payables

	2022 Shs	2021 Shs
Sundry payables	5,945,289	4,770,659
Audit fee	350,000	800,000
Mpesa deposit account	422,915	569,944
Legend Valuers	280,000	280,000
Rent Deposit	3,602,029	2,113,519
Honoraria/staff bonus provision	6,030,000	5,390,000
Withdrawals payable	16,044,353	22,582,991
ATM, POS & VISA Clearing A/c	(156,102)	103,337
Milimani Plot Creditors	2,500,000	-
Other payables	2,696,397	2,238,399
Total other payables	**37,714,881**	**38,848,849**

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 Shillings (Shs.).

14. Interest due to members

	2022 Shs	2021 Shs
At the start of the year	387,996,826	318,238,304
Provisions for the year	441,509,259	387,996,826
Payments during the year	(387,996,826)	(318,238,304)
At end of year	**441,509,259**	**387,996,826**

The interest payable comprises of interest on members deposits at 10.2% (2021: 10%) and interest on investment savings at 7% (2021: 7%) both payable on a prorata basis as required under section 23(3) of the Sacco Societies regulation..

The carrying amounts of the society's interest due is denominated in Kenya Shillings (Shs).

15. a Members' deposits	2022 Shs	2021 Shs
At the start of the year	3,983,734,915	3,606,344,349
Deposits during the year	900,748,084	751,142,852
Withdrawals/refunds during the year	(443,244,633)	(373,752,286)
	4,441,238,366	3,983,734,915
Members' investment savings		
At the start of the year	187,611,236	182,172,807
Deposits during the year	625,632,724	618,220,174
Withdrawals/refunds during the year	(634,769,668)	(612,781,745)
	178,474,292	187,611,236
Total member savings	**4,619,712,658**	**4,171,346,151**

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 Shillings (Shs).

b FOSA deposits	2022 Shs	2021 Shs
At the start of the year	118,670,126	75,349,358
Deposits during the year	4,384,084,478	3,020,439,202
Withdrawals/refunds during the year	(4,336,375,769)	(2,977,118,434)
	166,378,835	118,670,126

16. Share capital	2022	2021
At start of year	272,835,552	257,292,052
Contributions for the year	18,338,668	15,543,500
At end of year	**291,174,220**	**272,835,552**
Comprising of:		
Paid up	290,796,600	272,457,000
Partly paid	377,620	378,552
	291,174,220	**272,835,552**

Share capital represents equity in the form of issued and fully paid up shares of common stock. The minimum share capital is Shs. 30,000.

17. Reserves

Included in the members balances are the following reserves which are as a result of

statutory requirements:-	2022 Shs	2021 Shs
i) Statutory reserve		
At start of year	86,015,124	68,578,437
Transfer from appropriation reserve	24,601,807	17,436,687
At end of year	**110,616,931**	**86,015,124**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

17. Reserves (continued)

	2022 Shs	2021 Shs
ii) Appropriation reserve		
At start of year	252,535,865	187,164,117
Fair value gain	1,000,000	-
Honoraria and staff bonus	(6,030,000)	(5,390,000)
Surplus for the year	123,009,037	87,183,435
Transfer of excess depreciation	507,500	1,015,000
Transfer to statutory reserve	(24,601,807)	(17,436,687)
Proposed dividend	(43,669,848)	-
Proposed dividend retained	-	-
At end of year	302,750,747	252,535,865
iii) RMF reserve fund		
At start of year	72,204,946	67,204,946
RMF Proceeds	8,000,000	5,000,000
At end of year	80,204,946	72,204,946

RMF proceed; This is the excess amount over premium which was partially transferred to the income statement for distribution to members while the balance retained to improve the reserve.

	2022 Shs	2021 Shs
(iv) Revaluation reserve		
At start of year	579,487	1,874,487
Revaluation fee	-	(280,000)
Transfer of excess depreciation	(507,500)	(1,015,000)
At start and end of year	71,987	579,487
(v) Fair value reserve		
At start of year	26,318,256	33,364,025
Fair value (loss)/gain on income from other financial assets at fair value through other comprehensive income	(671,025)	(7,045,769)
At end of year	25,647,231	26,318,256

(vi) Dividend account

The total proposed dividend for the year is 15% of share Capital (2021: 00%).

	2022 Shs	2021 Shs
Proposed during the year	43,669,848	-
At end of year	43,669,848	-
(vii)Loan Loss Reserve		
During the year	511,129	-

The loan loss reserve relate to recovered amounts from previous year loan write-offs which have been capitalized as per Sacco rules and regulations 2010 section 45(3).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

18. Related Party Transactions	2022 Shs	2021 Shs
(i) Milimani Land project		
Outstanding Balances arising from Milimani Plots		
Opening Balance B/f	24,954,080	44,954,080
Adjustment/Off sets	27,963,910	(20,000,000)
Milimani Plot Balances	52,917,990	24,954,080
Comprising of:		
Milimani Plot Debtors	18,917,990	-
Available assets for Sale	34,000,000	-
	52,917,990	-

Available assets for sale represents 17 Milimani plots unsold @ Kshs.2,000,000 each.

(ii) Key management personnel remuneration			
Short term employee benefits		14,969,045	13,957,920
Post employment benefits		1,224,240	1,167,984
		16,193,285	15,125,904

	Directors Shs	Staff Shs	Total Shs
(iii). Insider loans	21,529,326	50,793,059	72,322,385
As at start of the year (1st January)	22,917,650	63,665,711	86,583,361
Granted during the year Repayments	(14,195,584)	(49,545,255)	(63,740,839)
At the end of the year (31st December)	30,251,392	64,913,515	95,164,907

All loans issued to the Society's Board of Directors as well as the members of staff are reported as insider lending. The Society issues this credit at arm's length and there is no preferential treatment given to either the Board or Staff when applying for a facility. All insider loans are well documented and are performing

(iv). Expenditure to the Board	2022 Shs	2021 Shs
Provision for Honoraria	3,140,000	2,980,00
Board training	3,785,300	0 2,985,300
Board sitting allowances	7,093,212	4,957,350
Board travel and other expenses	4,846,330	6,968,275
Board insurance	736,456	578,271
	19,601,298	18,469,196

19. Commitments

Contractual commitments for the System acquisition and Mobile Banking

At the reporting date these commitments were as follows:	2022 Shs	2021 Shs
Core Banking System-Objects and licenses	8,350,956	9,223,000
Mobile Banking	2,018,400	7,168,600

20. 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.

	2022 Shs	2022 Shs
Effect on surplus - arising from loans and advance - increase	**36,032,236**	**30,691,054**
Effect on surplus - arising from members balances - (decrease	**(29,433,951)**	**(25,866,455)**

(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 centralized in a credit risk committee, 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. Origination and approval roles are segregated with different levels of the credit committee having authorities to approve loans upto a certain amount based on their position in the organization hierarchy.

Incorporation of forward-looking information

The society uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The society's employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The society applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the society for strategic planning and budgeting. The society has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The society has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 for Kenya are as follows:

- GDP Growth
- Unemployment rates
- Interest rates
- Inflation

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the portfolios of financial assets have been developed based on analysing historical data over the past 3 years. The society has correlation between the macroeconomic factors and the experienced credit losses. Therefore these factors do not have a material impact on the ECL.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information where it may have a material impact on the ECL.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, crosscollateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and the calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Credit risk measurement

The society's credit committee is responsible for managing the society's credit risk by;

- Ensuring that the society has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the society's stated policies and procedures, IFRSs and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the society, from an individual instrument to a portfolio level.
- Creating credit policies to protect the society against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposure against internal risk limit.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the society's risk grading to categories exposure according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the society's risk processes for measuring Expected Credit Loss including monitoring of credit risk, incorporating forward looking information and the method used to measure ECL.
- Ensuring the society has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk to account for ECL. Providing advice, guidance and special skills business units to promote best practice in the management of credit risk.

The internal audit function performs regular audit to make sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

The society monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been an increase in significant risk the society will measure the loss allowance based on the lifetime rather that 12 - months ECL.

Internal credit risk rating

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.

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 in part by obtaining collateral against loans and advances in the form of registered securities over assets and guarantees from members. Credit risk in the society, is also managed through a framework of policies and procedures. Origination and approval roles are segregated.

To aid credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The society's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The society uses EAD models that reflect the characteristics of the portfolios.

The society measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the society's contractual ability to demand repayment and cancel the undrawn commitment does not limit the society's exposure to credit losses to the contractual notice period. For such financial instruments the society measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the society does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the society becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the society expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the provisions calculation for regulatory purposes. The society has ensured that the appropriate methodology is used when calculating ECL for both accounting purposes. The main differences between the methodologies used to measure ECL in accordance with IFRS 9 versus the ones applied for regulatory purposes are as disclosed on Note 8 of the financial statements. Any excess in regulatory provisions over IFRS 9 ECLs are accounted for as an appropriation from retained earnings into a loan loss reserve.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of share risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- remaining term to maturity;
- industry/economic sector; and
- geographic location of the borrower.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Collateral held as security

The society holds collateral against all loans and advances to members in the form of cash, fixed assets such motor vehicle 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 frequency commensurate with nature and type of the collateral and credit advanced. Collateral structures and covenants are subjected to regular review to ensure they continue to fulfill the intended purpose. Collateral is generally not held in respect of deposits and balances due from banking institutions, items in the course of collection and Government securities.

(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 2022	**Current to 1 year Shs**	**1 to 5 years Shs**	**Total Shs**
- Member savings	178,474,292	4,441,238,366	4,619,712,658
- Other payables	37,714,881	-	37,714,881
- Interest due to members	441,509,259	-	441,509,259
	657,698,432	**-**	**5,098,936,798**
Year ended 31 December 2021	**Current to 1 year Shs**	**1 to 5 years Shs**	**Total Shs**
- Member savings	187,611,236	3,983,734,915	4,171,346,151
- Other payables	38,848,849	-	38,848,849
- Interest due to members	387,996,826	-	387,996,826
	614,456,911	**-**	**4,598,191,826**

21. Risk management fund

Statement of income and expenditure	**2022 Shs**	**2021 Shs**
Income		
Members contributions during the year	24,760,530	23,295,880
Premiums on loans issued	19,698,606	17,263,243
Total income	44,459,136	40,559,123
Other income Interest earned	7,428,442	1116,907,927
Total other income	7,428,442	6,907,927
Total income	51,887,578	47,467,050
Expenses		
Members refund and loan offset	27,578	1115,837,819
Funeral expenses paid	140,000	280,000
Committee expenses	991,417	760,000
Insurance premium	20,512,203	16,611,861
Total claims	21,671,198	23,489,680
Surplus before appropriation	30,216,380	23,977,370
Transfer to RMF Reserve	8,000,000	5,000,000
Net surplus for the year	**22,216,380**	**18,977,370**

Risk management fund is a source of fund contributed by the members for insurance of loans.

This fund is reinsured by the Monarch by paying a premium to cover all the loans in case of death or permanent disability of a member.

The net surplus on this fund after deducting all the directly related expenses is recognized as other income on the society's accounts.

22. Capital management

Internally imposed capital requirements

The society manages its capital to ensure that it will be able to continue as a going concern while maximising 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 Society was licenced by Sacco Societies Regulatory Authority (SASRA) effective 1st January 2020.

23. GOVERNANCE EXPENSES	2022 Shs	2021 Shs
ADM expenses	3,793,524	3,895,550
Delegates education	3,381,150	3,417,850
Members education	2,947,313	156,500
Board and Regional officials training	3,785,300	2,985,300
Board sitting allowances	7,093,212	4,957,350
Board travel and other expenses	4,846,330	6,968,275
Regional meeting expenses	1,177,331	815,000
Ushirika day celebrations	1,071,260	50,000
Total governance expenses	**28,095,420**	**23,245,825**

24. ADMINISTRATIVE EXPENSES	2022 Shs	2021 Shs
Employment:		
Salaries and wages	43,464,993	39,179,087
Staff medical	4,235,263	3,411,628
Staff GPA insurance	105,139	102,134
National Social Security Fund	66,800	60,000
Provident fund	3,043,260	2,760,460
Staff education	3,681,960	3,540,540
Total employment costs	54,597,415	49,053,849
Other administrative expenses:		
Travel and subsistence	2,898,590	2,755,629
Printing and stationery	849,279	1,076,624
Cash in transit expenses	548,960	353,960
Audit fees	700,000	800,000
Supervision and filing fee	70,200	80,200
VAT charge non recoverable	112,000	128,000
Strategic plan and consultancy expenses	2,090,500	1,225,620
Legal fees	-	385,800
Bank charges	1,001,360	858,754
Systems audit	-	278,400

24. ADMINISTRATIVE EXPENSES(contd)	2022 Shs	2021 Shs
Subscription and donations	252,500	193,000
Entertainment	740,627	957,575
Telephone and postage and airtime	693,457	1,078,988
Marketing, publicity and advertisement	4,280,105	1,902,830
Motor vehicle expenses	587,680	394,065
Computer expenses	4,255,028	3,563,422
Covid-19 Related Expenses	53,693	222,680
Sundry expenses	1,068,673	1,043,405
Cleaning expenses	2,067,844	2,077,975
Insurance Management-Property	736,456	578,271
Total other administrative expenses	23,006,952	19,955,198
Total administrative expenses	**77,604,367**	**69,009,047**

25. OTHER OPERATING EXPENSES	2022 Shs	2021 Shs
Establishment:		
Depreciation on property and equipment	2,974,529	3,437,560
Amortisation of intangible assets	1,050,536	524,480
Rates and rent	1,401,236	92,523
Security expenses	2,978,974	3,018,000
Water, fuel and electricity	1,193,762	1,719,038
Interest Expense on savings	247,974	59,260
Other Tax related Expenses	1,991,991	-
Repair and maintenance	3,374,050	2,039,260
Total other operating expenses	**15,213,052**	**10,890,121**

26 HONORARIA AND STAFF BONUS	2022 Shs	2021 Shs
Honoraria to Board and Regional officials	3,140,000	2,980,000
Staff bonus	2,890,000	2,410,000
	6,030,000	**5,390,000**

27 Deferred tax

Deffered tax relates to the temporary differences arising from revaluation surplus on property and equipment and fair values changes in investment in shares held with Co-opholding Cooperative Society Limited, Co-operative Insurance Society Limited and KUSCCO Limited. No provision has been made as the amount is not material.

28 Incorporation

Ushuru Savings and Credit Co-operative Society Limited is registered in Kenya under the Cooperative Societies Act, (Cap. 490) and is domiciled in Kenya. The Society is licensed by Sacco Societies Regulatory Authority (SASRA) effective from 1st January 2020.

29 Presentation currency

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

NOTES

NOTES

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