USHURU SACCO SOCIETY LIMITED

Huduma Maradufu

2019

ANNUAL REPORT AND **FINANCIAL STATEMENTS**

Quality and Highly Efficient Services to Members Since 1970

Contents

Board of Directors

Isaac Kiprop
National Chairman

Dominic Mokaya
National Hon. Secretary

Onesmus Nzuki
National Vice Chairman

Samuel Wachiuri
National Treasurer

Oliver Sikuku
Director

Patrick Chelule
Director

Boaz Chimasia
Director

Emily Obonyo
Director

Frank Robert
Director

William Pudha
Chief Executive Officer

Supervisory Committee

William Ndiritu
Chairman

Kevin Kuria
Secretary

Christopher Ngilu
Member

Management Staff

William Pudha
Chief Executive Officer

Edward Obilo
Manager Finance

Cynthia Mwakalama
Manager Operations

Wycliffe Mutuli
Manager IT

Caroline Ogutu
Manager Credit

Elizabeth Ouko
Manager Audit

Corporate Information

Vision

To be a leading world class preferred and trusted SACCO in the provision of unique, quality and highly efficient services to members.

Mission

To provide timely and convenient innovative, competitive, affordable as well as accessible products and services.

Objectives

To promote the interest and welfare of members in accordance with co-operative principles and values.

Core Values

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

Simple | Proficient | Ethical | Cohesive

Chairman’s Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and audited Financial statement for the year ending 31st December 2019.

Economic Review

The year 2019 presented the most challenging period for Kenyans in general with the economy worsening and the inflation rate in the second Quarter of 2019 growing by 47% to 5.9% compared to the previous year the same Quarter where inflation was at 4%. This was driven by the rising food prices which was mostly affected by the bad weather conditions witnessed in the country. Weighted interest rates on commercial banks loans and advances declined to an average of 12.48 per cent in the first half of 2019 from 13.22 per cent during a similar period in 2018. This was due to reduction of Central Bank Rate (CBR) by 50 basis points. The Kenyan currency remained steady supported by resilient inflows from service exports, diaspora remittances as well as lower imports.

The Co-operative Sector Overview

Despite the challenges noted above, the SACCO sector continued to play its key role of promoting socio-economic welfare of members with minimum hindrances. However, the Society experienced a very high default rate in loans which could be attributed to the tough economic times experienced all over the country. The Society is however committed in ensuring that the recoveries are promptly and accurately done to mitigate against any major loss.

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 5.95% compared to the previous year. The SACCO recorded 10.4% increase in total assets with members' deposit and loans growing by 10.3% and 6.5% respectively. Interest on members' deposits proposed increased by 1.7% while proposed dividend on share capital grew 1.35%. The Society also witnessed an improved core capital and institutional capital which improved by 15.5% and 7.8% respectively while share capital grew by 24.3%. Our loan delinquency grew abnormally by a margin of 586% and this is explained by the introduction of a new International Financial Reporting Standard (IFRS) 9 which took effect as at 1st January 2019.

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 want to take this opportunity to extend special thanks to our members for your continued support as well as the Board of Directors, the supervisory committee, delegates and members of staff for helping us keep the promise to our members

Isaac Kiprop

National Chairman

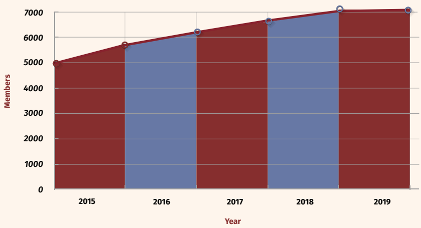
Five Year Performance Review

Year	Year 2019	Year 2018	Year 2017	Year 2016	Year 2015
Membership	**6766.00**	**6392.00**	**5946.00**	**5390.00**	**4817.00**
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs
Loan balances	3,040,625,964.00	2,896,863,973.00	2,679,302,095.00	2,433,531,912.00	2,153,121,256.00
Members deposit	3,422,840,210.00	3,102,359,566.00	2,746,532,162.00	2,501,944,562.00	2,194,172,199.00
Payout ratio	257,469,717.00	253,159,732.00	266,538,387.00	238,750,400.00	208,974,975.00
Gross income	444,844,968.00	395,488,442.00	367,929,354.00	342,183,250.00	328,173,909.00
Share capital	238,211,279.00	191,678,820.00	163,036,917.00	64,608,002.00	52,998,978.00
Total assets	4,249,541,279.00	3,849,501,344.00	3,461,176,885.00	3,064,675,481.00	2,697,617,348.00
Core Capital	473,408,044.00	463,859,357.00	421,086,142.00	310,377,216.00	285,034,970.00
Institutional capital	235,196,765.00	272,180,537.00	258,049,225.00	245,769,214.00	232,035,992.00
Capital Adequacy					
Core Capital/ Total Assets	11.1	12.00	12.20	10.13	10.57
Core Capital/Total Deposit	13.8	15.00	15.30	12.41	12.99
Institutional Capital/ Total Assets	5.5	7.1	7.5	8.02	8.60
Liquidity Ratio	19	13.00	6.00	12.39	13.19
Growth Rate					
Total Income	12.5	7.49	7.52	4.27	28.41
Total Assets	10.4	11.19	12.94	13.61	15.13
Members deposits	10.3	12.96	9.78	14.03	14.69
Loans to members	6.4	8.11	10.10	13.02	23.84
Share Capital	24.3	17.57	152.35	21.90	20.84
Other Disclosures					
Interest on deposit rate	8.00	9.00	10.2	10.5	10.5
Dividend Rate	10.00	12.00	12.00	11.00	12.00
Delinquent Loans Rate	0.97	0.14	0.04	0.04	0.07

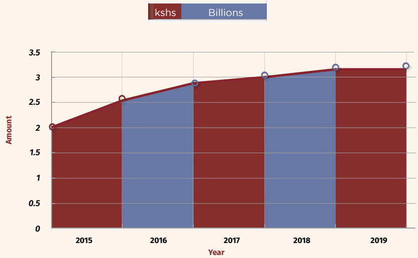
Five Year Performance Review

Graphical Presentation

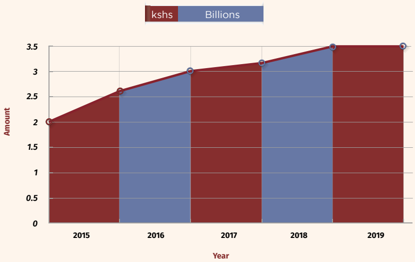
MEMBERSHIP



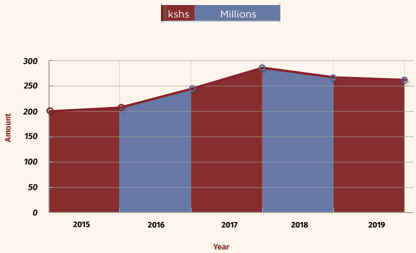
LOAN BALANCES



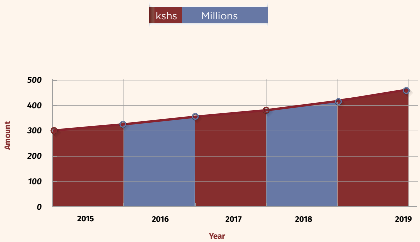
MEMBER DEPOSITS



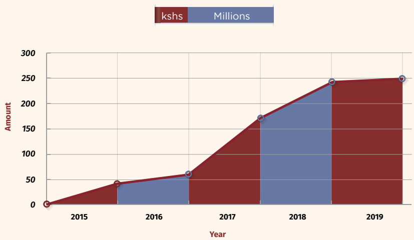
PAYOUT RATIO



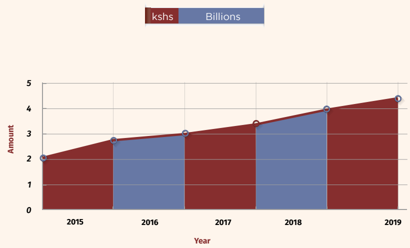
GROSS INCOME



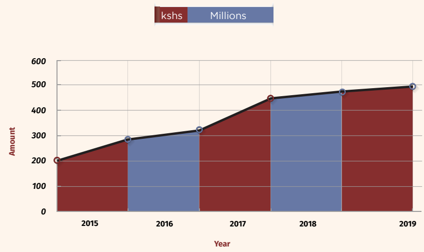
SHARE CAPITAL



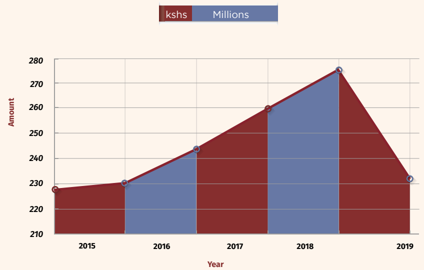
TOTAL ASSETS



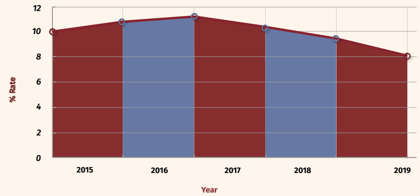
CORE CAPITAL



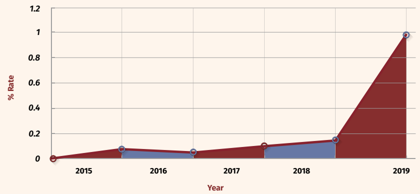
INSTITUTIONAL CAPITAL



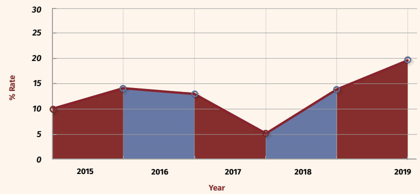
INTEREST ON DEPOSIT RATE



DELINQUENT LOANS



LIQUIDITY



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.

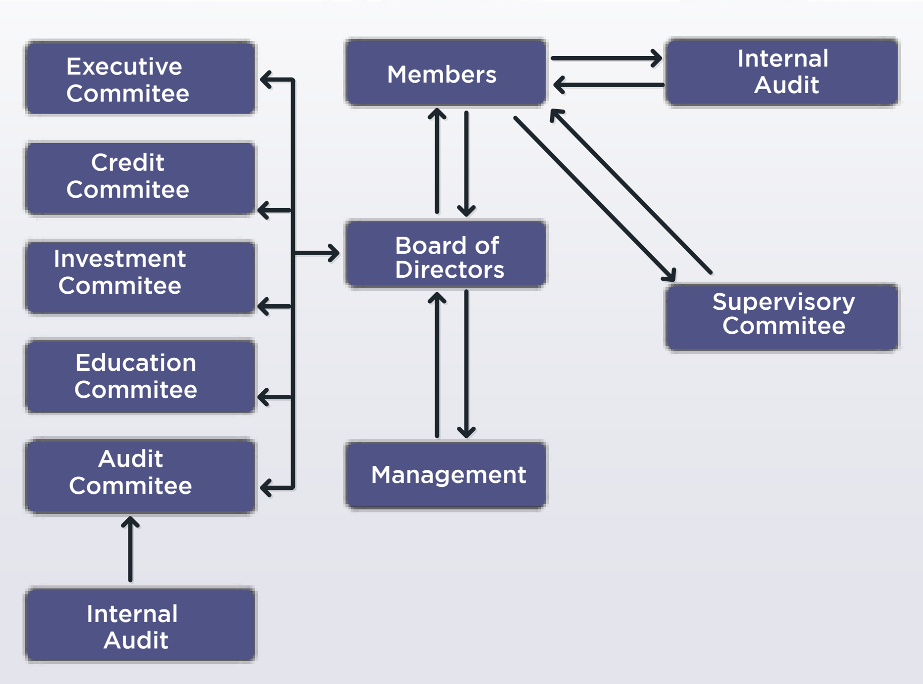
Ushuru Sacco has recognized the importance of effective corporate governance structure and takes all necessary steps to implement policies, procedures and systems to ensure full compliance with the applicable statutes and regulations, the requirements of all regulatory bodies and international best practise.

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

Executive Committee

This consists of the Chairman, Vice Chairman, Secretary and Treasurer. Executive committee duties are based on providing Societies direction on behalf of the board and advising the board on decisions and business matters ranging from strategy planning, policy, investment and risk. They also assist the CEO in the oversight and day-to-day management as well as providing general direction for the Sacco. 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.

Education Committee

This committee consists of three 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 BOD and staff.

Investment Committee

Investment committee constitutes three members from the Board whose primary roles is to review and make recommendations to the Board on the financial plans of the Sacco ensuring its adequacy and soundness in providing to the Sacco's current operations and long term stability. This committee is chaired by the National Treasurer of the Society.

Audit Committee

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

Adhoc Committee

These are the other committees which were operational during the year and which were considered necessary for the continuous improvement of the societies operations. The committees include Staff advisory committee chaired by National Vice Chairman and the Policy & Strategic Committee chaired by Mr. Frank Robert.

Staff Advisory Committee

The committee serves in advisory capacity to the Board on issues, concerns and opportunity regarding the staff of the Society. Particularly, for 2019 the committee played an important role of carrying out a staff evaluation in order to identify gaps, this was specifically targeted to the actualization of the 2018-2022 strategic plan which outlines performance contracting as one of its achievement.

Policy Committee

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

Board meetings and attendance

The full Board meets regularly, with at least twelve Monthly meetings a year, and serves a notice indicating a schedule of matters reserved for discussion. The Directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, compliance and governance issues. A careful balance of formal 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. There is diversity in the Board in terms of professional competence which ensures that the level of debate is both detailed and of a high technical standard.

The table below is a summary of the meeting attendance record of the Board of Directors for the year 2019.

Board of Directors Meeting Attendance

Name	Role	When Appointed	When Retired	Attendance
Isaac Kiprop	National Chairman	Re-elected 25th March 2017	4th April 2020	11/12
Domnic Mokaya	Hon. Secretary	7th April 2019		7/9
Onesmus Nzuki	National Vice Chairman	7th April 2018		10/12
Samuel Wachiuri	National Treasurer	7th April 2019		11/12
Oliver Sikuku	Member	25th March 2017	4th April 2020	8/12
Emily Obonyo	Member	25th March 2017		10/12
Patrick Chelule	Member	25th March 2017	4th April 2020	9/12
Frank Robert	Member	7th April 2018		9/12
Boaz Chimasia	Member	7th April 2018		9/12

The table below is a summary of the meeting attendance record of the Various Committees for the year 2019.

COMMITTEE MEETING ATTENDANCE								
NAME	Executive	Investment	Credit	Audit	Education	Supervisory	Staff Advisory	Policy Committee
Isaac Kiprop	12/12	-	-	-	-	-	-	-
Domnic Mokaya	8/9	-	-	-	-	-	-	4/4
Onesmus Nzuki	11/12	-	-	-	2/2	-	2/2	-
Samuel Wachiuri	11/12	4/4	-	-	-	-	2/2	-
Oliver Sikuku	-	4/4	11/12	-	1/2	-	-	-
Emily Obonyo	-	-	-	4/4	2/2	-	-	4/4
Patrick Chelule	-	-	12/12	4/4	-	-	-	-
Boaz Chimasia	-	-	12/12	4/4	-	-	2/2	-
Frank Robert	-	4/4	-	-	-	-	-	4/4
William Ndiritu	-	-	-	-	-	4/4	-	-
Martin Obara	-	-	-	-	-	4/4	-	-
Christopher Ngilu	-	-	-	-	-	4/4	-	-

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.

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.

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

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) has become one of the standard business practices of our time. For organizations, the overall aim is to achieve a positive impact on society while maximizing the creation of shared values for the owners of the business, its employees, shareholders and stakeholders. The Society has not been left behind on this trend and on annual basis, the society engages in social activities to accomplish this endeavour. In the Financial Year 2019, the Society managed to carry out its CSR activity by visiting Mama Fatuma Children's home.

Mama Fatuma Children's Home

Society information

Board of directors	Mr. Isaac Kiprop	National Chairman
	Mr. Onesmus Nzuki	National Vice Chairman
	Mr. Dominic Mokaya	National Hon. Secretary
	Mr. Samuel Wachiuri	National Treasurer
	Mr. Oliver Sikuku	Director
	Ms. Emily Obonyo	Director
	Mr. Boaz Chimasia	Director
	Mr. Patrick Chelule	Director
	Mr. Frank Robert	Director
	Mr. William Pudha	Chief Executive Officer
Supervisory committee:	Mr. William Ndiritu	Chairman
	Mr. Kevin Mburu	Secretary
	Mr. Christopher Ngilu	Member

Registered office:

Ushuru Co-operative Savings and Credit Society Limited
Ushuru Sacco Centre
P.O. Box 52072, 00200 NAIROBI
Telephone: 020-2719660
Email: info@ushurusacco.com

Principal banker:

Co-operative Bank of Kenya Limited
Ukulima House Branch
NAIROBI

Legal advisors

The panel of lawyers available at the head office

Independent auditor

MAZARS
Certified Public Accountants (K)
The Green House, 3rd Floor, Suite 8
Adams Arcade along Ngong Road
P.O. Box 61120 (00200)
P.O. Box 61120 (00200)
NAIROBI
Tel : 254 020 3861175/76/79
Cell phone : 0722-440270/0734-440270
Email: contact@mazars.co.ke
Website: www.mazars.co.ke

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2019 which show the society's state of affairs.

Incorporation

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

Principal Activity

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

Business Review

The total interest income of the society increased from Shs. 356.7 million to Shs. 392.1 million. The increase is directly attributed to growth in the loan book to members compared to prior year. Surplus before tax increased from Shs. 43.6 million to Shs. 47.7 million compared to prior year. This is attributed to decrease in interest on member deposits and increased provision on loans.

As at 31 December 2019, the net asset position of the society was Shs. 530.4 million compared to Shs. 463.7 million as at 31 December 2018.

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. 191.7 million to Shs. 238.2 million.

Dividends and Interest

The management committee recommends payments of first and final dividend of 10% (2018: 12%) on weighted share balance. They also recommend 8% (2018: 9%) on weighted members deposit and 7% (2018: 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.

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

BY ORDER OF THE BOARD

Signature: ______________________ **Date:** 28/02/2020

Chairman

Financial and statistical information

		As at 31 December	
		2019	2018
Membership		Numbers	Numbers
At start of the year		6,392	5,946
Members who joined within the year		883	674
Withdrawals during the year		(509)	(228)
At end of the year		**6,766**	**6,392**
Comprising:	- Active	6,637	6,312
	- Dormant	129	80
		6,766	**6,392**
Branches		**4**	**4**
Number of employees		**22**	**22**

	2019	2018
Financial	Shs	Shs
Total assets	4,249,541,279	3,849,501,344
Members' deposits	3,422,840,210	3,102,359,566
Loans and advance to members	3,087,366,072	2,900,963,937
Provision for loan losses	46,740,108	4,099,964
Other financial assets	45,469,158	42,281,786
Total revenue	444,844,968	395,488,442
Total interest income from members	367,767,487	347,108,726
Total expenses	402,395,068	354,566,161
Investment shares	238,211,279	191,678,820
Statutory reserve	53,769,493	45,279,513
Appropriation account	114,152,726	105,645,841
Core capital	473,338,444	463,859,357
Institutional capital	235,127,165	272,180,537

Financial and statistical information...cont'

Key ratios:	Statutory	2019 %	2018 %
Capital adequacy ratios			
Core capital/Total assets	10%	11.1%	12.0%
Core capital/Total deposits	8%	13.8%	15.0%
Institutional capital/Total assets	**8%**	**5.5%**	**7.1%**
Liquidity ratio			
Liquid assets/Total deposits and short-term liabilities	**12%**	**19%**	**13%**
Operating efficiency/loan quality ratios			
Total expenses/Total revenue		90%	90%
Interest to members deposits/Total revenue		58%	64%
Interest on members deposits		8%	9%
Interest rate on members' savings		7.0%	7.0%
Dividend rate on members share capital		10%	12%
Total delinquent loans/Gross loan portfolio		0.97%	0.14%

Statement of Director' Responsibilities

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

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Co-operative Societies Act, Cap. 490. They also accept responsibility for:

i) Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) Selecting and applying appropriate accounting policies; and

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2019 and of the society's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act, Cap. 490.

In preparing these financial statements the directors have assessed the society's ability to continue as a going concern 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 28/02/ 2020 and signed on its behalf by:

______________________ **Isaac Kiprop - Chairman**

______________________ **Samuel Wachiuri -Treasurer**

______________________ **Dominic Mokaya - Secretary**

MAZARS

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

Opinion

We have audited the financial statements of Ushuru Savings and Credit Co-operative Society Limited (the 'society) set out on pages 15 to 46, which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the society's financial 'position as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Co-operative Societies Act, Cap.490.

Basis for opinion

We conducted our audit in accordance with international standards on Auditing. Our responsibilities under these standards have been further specified in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Loan impairment provisions

The directors exercise significant judgement in classification of loans and advances to customers into the various credit grades/stage as described in note 1(b) and note 20 to the financial statements as well as the level of expected credit loss necessary for each grade/stage of loan which is based on the society's past experience and reference to the regulatory guidelines and industry standards and relevant consideration of forward looking factors. Because of the significance of these judgements and the quantum of loans and advances, the audit of loan impairment provisions is a key audit matter. Further details of the loans and advances balances and impairment provisions are included in note 8 to the financial statements.

Our audit procedures included testing the model used by the directors in classifying loans and advances into their respective credit grades and stages of performance which included understanding the classification criteria and reviewing this for consistency with the society and industry experience.

MAZARS

Loan impairment provisions (continued)

We tested a sample of loans and advances (including loans that had not been identified by management as impaired) to form our own assessment as to whether the loan classification and staging was reliable. For a sample of impaired loans we tested the extraction of data used in the models, the assessment of probability of default and the estimation of the future expected cash flows from the members based on historic experience including realisation of collateral held which primarily represented current deposits which we tested against records of member deposits which are key inputs into the loss given default assumption.

Information technology control environment

The society is highly dependent on information systems and controls over access rights to such systems are critical and therefore represent a key audit matter.

We tested the design and implementation of the society's controls around the information technology environment and operating effectiveness for controls that were critical to databases within the scope of our audit and the financial reporting process. Where our procedures identified deficiencies, we assessed the design and implementation of any controls that mitigated the identified risks and extended the scope of our tests of operating effectiveness of controls and/or substantive audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors, statement of directors' responsibilities and financial and statistical information which comprise the annual report but does not include the financial statements and the auditors report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will 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.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

MAZARS

Auditor’s responsibilities for the audit of the financial statements ..cont’

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

MAZARS

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Society of which we are the auditors have been properly kept in accordance with the provisions of the Sacco Society's Act.

The engagement partner on the audit resulting in this independent auditor's report is FCPA Charles Gathuto P/No 1231.

MAZARS CPA(K)

03 March, 2020

Revenue	Notes	2019 Shs	2018 Shs
Interest income:			
Interest on loans and advances	2 (a)	367,767,487	347,108,726
Other interest income	2 (b)	24,379,759	9,580,077
Total interest income		392,147,246	356,688,803
Interest expenses	2 (c)	(257,469,717)	(253,159,732)
Net interest income		134,677,529	103,529,071
Other operating income	2 (d)	52,697,722	38,799,639
Impairment credit/(charge) on loan and advances	8	(42,640,144)	(1,351,815)
Governance expenses	23	(28,277,549)	(29,703,235)
Administrative expenses	24	(60,361,843)	(58,007,140)
Other operating expenses	25	(8,316,492)	(9,592,388)
Surplus before tax		47,779,223	43,674,132
Income tax expense	5	(5,329,323)	(2,751,851)
Surplus for the year		42,449,900	40,922,281
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	3,187,372	(3,522,885)
Fair value (Gain/loss) on investment property	10	624,372	(6,473,939)
Surplus on revaluation of property and equipment	11	-	2,538,687
Total comprehensive income		46,261,644	33,464,144
Statutory reserve 20%		(8,489,980)	(6,052,668)
		37,771,664	27,411,476
Honoraria and staff bonus	26	(4,455,000)	(4,185,000)
Total comprehensive income after honoraria and bonus		**33,316,664**	**23,226,476**
Dividend:			
Proposed final dividend for the year		21,622,407	21,334,897

The notes on pages 15 to 46 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

	Notes	2019 Shs	2018 Shs
Assets			
Cash and bank balances	6	638,425,740	410,627,514
Receivables and prepayments	7	72,409,877	55,884,712
Loans and advances to members	8	3,040,625,964	2,896,863,973
Other financial assets	9	45,469,158	42,281,786
Investment property	10	338,500,000	334,500,000
Property and equipment	11	114,110,540	109,327,390
Intangible assets	12	-	15,969
Total assets		4,249,541,279	3,849,501,344
Liabilities			
Other payables	13	35,522,828	29,339,480
Interest due	14	257,469,717	253,159,732
Member deposits	15	3,422,840,210	3,102,359,566
Tax payable	4	3,229,161	783,209
		3,719,061,916	3,385,641,987
Financed by:-			
Share capital	16	238,211,279	191,678,820
Statutory reserve	17 (i)	53,769,493	45,279,513
Appropriation reserve	17 (ii)	114,152,726	105,645,841
RMF reserve fund	17 (iii)	67,204,946	67,204,946
Revaluation reserve	17 (iv)	2,154,487	2,538,687
Fair value reserve	17 (v)	33,364,025	30,176,653
Proposed dividend	17 (vi)	21,622,407	21,334,897
		530,479,363	463,859,357
Total liabilities and capital		4,249,541,279	3,849,501,344

APPROVED for publication and presentation to AGM or ADM subject to observations issued
17 MAR 2020
SIGN: ...
THE SACCO SOCIETIES REGULATORY AUTHORITY

The financial statements on pages 10 to 45 were approved and authorised for issue by the board of directors on 28/02 2020 and were signed on its behalf by:

______________________ **Isaac Kiprop - Chairman**

______________________ **Samuel Wachiuri -Treasurer**

______________________ **Dominic Mokaya- Secretary**

The notes on pages 15 to 46 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

Statement of changes in Equity

Year ended 31st December 2019	Notes	Share capital Shs	Statutory reserve Shs	Appropriation reserve Shs	RMF reserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Total Shs
At start of the year - as previously stated		191,678,820	45,279,513	105,645,841	67,204,946	2,538,687	30,176,653	21,334,897	**463,859,357**
IFRS 9 transition adjustment		-	-	-	-	-	-	-	**-**
At start of the year - as restated		191,678,820	45,279,513	105,645,841	67,204,946	2,538,687	30,176,653	21,334,897	**463,859,357**
Total comprehensive income:		-	-	42,449,900	-	-	3,187,372	-	**45,637,272**
Fair value gain	-	-		624,372	-				**624,372**
Honoraria and staff bonus		-		(4,455,000)	-				**(4,455,000)**
Transfer of excess depreciation	17 (iv)	-	-	-	-	-	-	-	**-**
Transfer to statutory reserve	17 (i)	-	8,489,980	(8,489,980)			-		
Revaluation fee	13	-	-			(384,200)			**(384,200)**
Tax adjustment		-	-	-	-	-	-	-	**-**
Transactions with owners:									
Issue of investment shares	16	46,532,459	-	-	-	-	-	-	**46,532,459**
Dividends:		-	-	-	-	-	-	-	
Paid 2018	17 (vi)	-	-	-	-	-	-	(21,334,897)	**(21,334,897)**
2018 overprovision		-	-	-	-	-	-	-	**-**
Proposed 2019	17 (vi)	-	-	(21,622,407)	-	-	-	21,622,407	**-**
At end of year		238,211,279	53,769,493	114,152,726	67,204,946	2,154,487	33,364,025	21,622,407	**530,479,363**

Year ended 31st December 2018	Notes	Share capital Shs	Statutory reserve Shs	Appropriation reserve Shs	RMF reserve fund Shs	Revaluation reserve Shs	Fair value reserve Shs	Dividend account Shs	Total Shs
At start of the year - as previously stated		163,036,917	39,226,845	105,254,452	67,204,946	980,000	33,699,538	11,683,444	**421,086,142**
Prior year adjustment		-	-	(1,789,049)	-	-	-	-	**(1,789,049)**
		163,036,917	39,226,845	103,465,403	67,204,946	2,538,687	33,699,538	11,683,444	**419,297,093**
Total comprehensive income:		-	-	40,922,281	-	-	3,187,372	-	**39,938,083**
Transfer of excess depreciation		-	-	980,000	-	-	-	-	**-**
Honoraria and staff bonus		-	-	(4,185,000)	-	-	-	-	**-**
Fair value gain		-	-	(6,473,939)	-	-	-	-	**(6,473,939)**
Transfer to statutory reserve	17 (iv)	-	6,052,668	(6,052,668)	-	-	-	-	**-**
Write back interest overprovision	17 (i)	-	-	561,518		-	-	-	**561,518**
Tax adjustment - 2016	14	-	-	(2,267,696)	-	-	-	-	**(2,267,696)**
Transactions with owners:									
Issue of investment shares	16	28,641,903	-	-	-	-	-	-	**28,641,903**
Dividends:		-	-	-	-	-	-	-	**46,532,459**
Paid 2016		-	-	-	-	-	-	(11,652,605)	**(11,652,605)**
2016 overprovision	17 (vi)	-	-	30,839	-	-	-	(30,839)	**-**
Proposed 2017	17 (vi)	-	-	(21,334,897)	-	-	-	21,334,897	**-**
At end of year		191,678,820	45,279,513	105,645,841	67,204,946	2,538,687	30,176,653	21,334,897	**468,044,357**

The notes on pages 15 to 46 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

Statement of Cash Flows

	Notes	2019 Shs	2018 Shs
Cash from operating activities			
Interest income	2 (a)	367,767,487	347,108,726
Other interest income	2 (b)	24,379,759	9,580,077
Other operating income	2 (d)	48,989,329	35,932,855
Interest payments	14	(253,159,732)	(265,976,869)
Payment to employees and suppliers		(93,253,973)	(91,498,902)
Net cash from operating activities		94,722,870	35,145,887
Cash (used in) loans and advances and other receivables			
Advances to members	8	(1,828,178,723)	(1,655,235,182)
Repayments	8	1,641,776,588	1,434,532,440
Increase in receivables and prepayments		(16,525,165)	117,883,311
Cash from deposits and other payables			
Deposits received	15	872,457,883	795,006,133
Withdrawals	15	(551,977,239)	(439,178,729)
Increase in other payables		935,048	(2,936,914)
Net cash from/(used in) operating activities			
before income taxes		213,211,262	285,216,946
Income tax paid		(2,883,371)	(1,791,204)
Net cash from/(used in) operating activities		210,327,891	283,425,742
Investing activities			
Purchase of property and equipment	11	(7,907,992)	(4,733,335)
Purchase of intangible assets	12	(152,000)	(348,000)
Purchase of investment property	10	(3,375,628)	(58,424,443)
Purchase of financial assets	9	-	(4,200,000)
Proceeds from disposal of assets held for sale		-	-
Dividends received	2(d)	3,708,393	2,866,784
Net cash (used in) investing activities		(7,727,227)	(64,838,994)

	Notes	2019 Shs	2018 Shs
Financing activities			
Proceeds from shares issue	16	46,532,459	28,641,903
Dividend paid		(21,334,897)	(11,652,605)
Net cash from financing activities		25,197,562	16,989,298
Increase/(decrease) in cash and cash equivalent		227,798,226	235,576,046
Cash and cash equivalents at start of year		410,627,514	175,051,468
Cash and cash equivalents at end of year	6	638,425,740	410,627,514

The notes on pages 15 to 46 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

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.

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

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

Going concern

The financial performance of the society is set out in the director's report and in the statement of comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 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.

i) New and amended standards adopted by the society

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2018 have been adopted by the society. Of those, the following has had an effect on the society's financial statements:

ii) International Financial Reporting Standards 9 (IFRS 9): Financial Instruments

The society has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The society did not early adopt IFRS 9 in previous periods.

As permitted by IFRS 9, the society has elected to continue to apply the hedge accounting requirements of IAS 39.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

iii) Significant and material impacts

» Total provision for impairment of loans and advances increased by Shs.42,640,144 from Shs.2,958,420 as at 31 December 2018 to Shs. 46,740,108 as at 1 January 2019 as a result of SARSA policy on grouping of loans and provisioning;

New standards, amendments and interpretations issued but not effective

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

» Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

» Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

» Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.

» Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.

» IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

» IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

The directors do not expect that adoption of the other standards and interpretations will have a material impact on the financial statements in future periods. The society plans to apply the changes above from their effective dates.

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 non-impaired 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)**

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 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 recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the society and when the specific criteria have been met for each of the society's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The society bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

Interest income and expense

Interest income is accrued by reference to time in relation to the principal outstanding using 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.

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 outstanding 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 derecognised. All other repairs and maintenance are charged to statement of comprehensive income during the financial year in which they are incurred.

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

	Rate (%)
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 amortization and accumulated impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization and amortization 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 capitalized 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).

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 maximise collection and minimise 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 counter party, 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. 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 derecognises 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 recognises 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 recognises 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 recognize 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 transfer.

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 CIC. Contribution to this fund is currently set at Shs. 300 per member per month. The excess of members contributions over premium payments is recorded under RMF reserve fund.

  The carrying amount at the end of the period is recognised in the statement of changes in equity and the surplus is available for distribution to members.

- **Dividends account**

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

o. Comparatives

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

2. Significant accounting policies

	2019 Shs	2018 Shs
a. Interest income		
Interest on loans and advances to members	367,767,487	347,108,726
b. Other interest income		
Interest on fixed deposit account	10,199,858	5,347,844
Interest on investment-UIC	4,270,638	-
Interest on term deposits	9,909,263	4,232,233
	24,379,759	9,580,077
Total interest income	**392,147,246**	**356,688,803**
c. Interest expenses		
Interest on members deposits	246,082,370	242,560,890
Interest on special savings	11,387,347	10,598,842
Total interest expense	**257,469,717**	**253,159,732**
Net interest income	**134,677,529**	**103,529,071**
d. Other operating income		
Rental income	1,488,000	-
Loan clearance commission	27,072,530	20,470,319
Bankers cheque commission	600	3,130
Dividends	3,708,393	2,866,784
Encashment commission	13,503	24,106
Entrance fee	903,792	556,800
Income from RMF (Note 21)	16,721,097	13,421,196
Miscellaneous income	2,789,807	1,457,304
Total other operating income	**52,697,722**	**38,799,639**

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	**3,187,372**	**(3,522,885)**

	2019 Shs	2018 Shs
4. Tax payable/recoverable		
Balance brought forward	783,209	(2,445,134)
Add: tax charge for the year	5,329,323	2,751,851
Tax credit adjustment	-	2,267,696
Less: 2019 Instalment tax paid	(2,883,371)	(1,791,204)
Tax due/recoverable	**3,229,161**	**783,209**
5. Tax		
Current tax	5,329,323	2,751,851
	5,329,323	2,751,851
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		
Surplus before tax	47,779,223	43,674,132
Tax calculated at a tax rate of 30% (2018: 30%)	14,333,767	13,102,240
Tax effects of:		
» Expenses not deductible for tax purposes	118,932,412	107,980,369
» Income not subject to tax	(127,936,856)	(118,330,758)
Tax charge	**5,329,323**	**2,751,851**
6. Cash and cash equivalents		
Cash and cash equivalents at the end of the year comprise:-		
Cash in hand	22,529,089	15,464,979
Cash at bank	136,087,546	176,507,122
Short term bank deposits	479,809,105	218,655,413
Total	**638,425,740**	**410,627,514**

The weighted average effective interest rate on short-term bank deposits at year-end was 10.45% (2018:10.45%).

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 an increased cash balance, this is attributed to the fact our main payroll submitted the cash before year end thereby boosting our cash inflow and reducing the amount receivable from employers.

6. Cash and cash equivalents ...cont'

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

	2019 Shs	2018 Shs
Receivables	14,608,817	3,744,636
Insurance premium prepaid	3,922,255	3,886,015
Prepayments	2,613,593	2,689,708
Deceased loans due from insurance	5,905,343	204,484
Loan disbursement control	405,789	405,789
Due from related party (Note 18)	44,954,080	44,954,080
	72,409,877	55,884,712
Ageing of receivables		
0 - 30 days	72,004,088	52,140,076
Over 30 days	405,789	3,744,636
Total	**72,409,877**	**55,884,712**

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

In the opinion of the directors, the carrying amounts of receivables and prepayment approximate to their fair value. The directors are of the opinion that the society's exposure is limited because the debt is widely held.

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

8. Loans and advances

	2019 Shs	2018 Shs
At start of year	2,900,963,937	2,680,471,466
Granted during the year	1,828,178,723	1,655,235,182
Repaid during the year	(1,641,776,588)	(1,434,742,711)
	3,087,366,072	**2,900,963,937**
Provision for loan losses	(46,740,108)	(4,099,964)
At year end	**3,040,625,964**	**2,896,863,973**

8. Loans and advances ...cont'

Ageing of past due loans	Amount	%	Accounts	Required provision
Performing	2,982,809,200	1%	6370	29,828,092
Past due - 30 days	59,905,153	5%	131	2,995,258
Past due - up to 180 days	35,129,259	25%	119	8,782,315
Past due - up to 360 days	8,357,540	50%	28	4,178,770
Past due - Over to 360 days	955,674	100%	22	955,674
	3,087,156,827		6670	46,740,108

The Sacco Society Regulatory Authority (SASRA) require the society to make provisions for doubtful and bad loans, The provisioning movement is after considering the collaterals and subsequent recoveries. The Society is in compliance with provisioning requirements as per note 8 above. All loans are fully secured either within Group / Member deposits or with valid collateral.

Movement in provisions for impairment of loans	2019 Shs	2019 Shs
At start of year	4,099,964	1,169,371
- IFRS 9 transition adjustment	-	1,789,049
At start of year - as restated	-	2,958,420
Loans write off	-	(210,271)
Expected credit loss provision	42,640,144	1,351,815
At end of year	46,740,108	4,099,964

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:

	2019 Shs	2019 Shs
Total loans outstanding at end of year:	68,809,602	58,086,587
Loans to directors	16,165,958	16,220,032
Loans to branch officials	19,509,983	14,614,882
Loans to supervisory committee members	1,880,027	3,018,100
Loans to other employees	31,253,634	24,233,573
	68,809,602	58,086,587

9. Other financial assets

	2019 Shs	2019 Shs
Other financial assets comprise the following:		
At start of year	42,281,786	41,604,671
Additions	-	4,200,000
Fair value gain/(loss)	3,187,372	(3,522,885)
	45,469,158	42,281,786
Fair value through other comprehensive income		
Co-opholdings Co-operative Society Limited 3,355,128 shares @9.50	31,873,716	28,686,344
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	**45,469,158**	**42,281,786**
Income from other financial assets at fair value through other comprehensive (Note 2d)	3,708,393	2,866,784

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 2019			
Fair value through other comprehensive income	35,289,156	10,180,002	45,469,158
Year ended 31 December 2018			
Fair value through other comprehensive income	32,101,784	10,180,002	42,281,786

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	2019 Shs	2018 Shs
At start of year	**71,250,000**	**27,000,000**	**236,250,000**	**334,500,000**	**384,540,809**
Transfers to property and equipment	-	-	-	-	(101,991,313)
Additions	-	-	3,375,628	3,375,628	58,424,443
Fair value (loss)/gain	-	-	624,372	624,372	(6,473,939)
At end of year	**71,250,000**	**27,000,000**	**240,250,000**	**338,500,000**	**334,500,000**

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 Paragon ‘property valuers and consultants limited an independent professional valuer with recent experience in the ‘location and category of the investment property being valued.

The fair valuation of investment property is considered to represent a level 3 valuation based on significant ‘non-observable inputs being the location and condition of the property, consistent with prior periods.

Management does not expect there to be a material sensitivity to the fair values arising from the ‘non-observable inputs. There were no transfers between level 1, 2 or 3 fair values during the year.

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

11. Property and equipment

Year ended 31 December 2019	Land Shs	Buildings Shs	Motor vehicles	Computers Shs	Equipment, furniture and fittings Shs	Total Shs
Cost						
At start of year	23,750,000	78,750,000	2,030,000	8,550,172	10,764,974	**123,845,146**
Additions	-	-	-	430,806	7,477,186	**7,907,992**
Transfers from investment property	-	-	-	-	-	**-**
(Deficit)/surplus on revaluation	-	-	-	-	-	**-**
At end of year	**23,750,000**	**78,750,000**	**2,030,000**	**8,980,978**	**18,242,160**	**131,753,138**
Comprising:						
Cost	-	23,750,000	-	8,980,978	18,242,160	**50,973,138**
Revaluation	23,750,000	55,000,000	2,030,000	-	-	**80,780,000**
	23,750,000	78,750,000	2,030,000	8,980,978	18,242,160	**131,753,138**
Accumulated depreciation						
At start of year	-	-	(472,500)	7,330,842	7,659,414	**14,517,756**
Reversal of accumulated depreciation on revaluation	-	-	-	-	-	**-**
Charge for the year	-	-	507,500	549,495	2,067,847	**3,124,842**
At end of year	-	-	35,000	7,880,337	9,727,261	**17,642,598**
Net book values	**23,750,000**	**78,750,000**	**1,995,000**	**1,100,641**	**8,514,899**	**114,110,540**

11 Property and equipment..cont'

Year ended 31 December 2018	Land Shs	Buildings Shs	Motor vehicles	Computers Shs	Equipment, furniture and fittings Shs	Total Shs
Cost						
At start of year	-	-	3,920,000	6,722,089	7,859,722	**18,501,811**
Additions	-	-	-	1,828,083	2,905,252	**4,733,335**
Transfers from investment property	24,186,059	77,805,254		-	-	**101,991,313**
(Deficit)/surplus on revaluation	(436,059)	944,746	(1,890,000)	-	-	**(1,381,313)**
At end of year	23,750,000	78,750,000	2,030,000	8,550,172	10,764,974	**123,845,146**
Comprising:						
Cost	-	-	-	8,550,172	10,764,974	**19,315,146**
Revaluation	-	-	2,030,000	-	-	**2,030,000**
	23,750,000	55,000,000	2,030,000	8,550,172	10,764,974	**21,345,146**
Accumulated depreciation						
At start of year	-	-	-	6,425,364	6,313,792	**15,679,156**
Reversal of accumulated depreciation on revaluation			--	-		**(3,920,000)**
Charge for the year	-	-	507,500	905,478	1,345,622	**2,758,600**
At end of year	-	-	(472,500)	7,330,842	7,659,414	**14,517,756**
Net book values	**23,750,000**	**78,750,000**	**2,502,500**	**1,219,330**	**3,105,560**	**109,327,390**

Motor vehicle was professionally valued 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)

	2019 Shs	2018 Shs
Cost		
At start of year	5,231,066	4,883,066
Additions	152,000	348,000
At end of year	**5,383,066**	**5,231,066**
Accumulated amortization		
At start of year	5,215,097	3,241,036
Amortization charge	167,969	1,974,061
At end of year	5,383,066	5,215,097
Net book value	**-**	**15,969**

Amortization of Shs. 167,969 (2018: Shs. 1,974,061) is included in other operating expenses in the statement of comprehensive income.

13. Other payables

	2019 Shs	2018 Shs
Sundry payables	16,654,614	13,898,224
Software (NAV 2016) payable	-	315,408
Audit fee	290,000	850,000
Mpesa deposit account	495,652	534,295
Legend Valuers	384,200	-
Rent Deposit	976,500	-
Honoraria/staff bonus provision	4,455,000	4,185,000
Withdrawals payable	8,718,071	6,232,414
Other payables	3,548,791	3,324,139
Total other payables	**35,522,828**	**29,339,480**

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

	2019 Shs	2018 Shs
At the start of the year	253,159,732	266,538,387
Provisions for the year	257,469,717	253,159,732
Write back of overprovision of interest payable	-	(561,518)
Payments during the year	(253,159,732)	(265,976,869)
At end of year	**257,469,717**	**253,159,732**

The interest payable comprises of interest on members deposits at 8% (2018: 9%) and interest on investment savings at 7% (2018: 7%) both payable on a prorata basis.

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

15. Members' deposits

	2019 Shs	2018 Shs
At the start of the year	2,944,691,871	2,600,654,837
Deposits during the year	558,559,407	516,077,504
Withdrawals/refunds during the year	(250,615,715)	(172,040,470)
	3,252,635,563	**2,944,691,871**
Members' investment savings		
At the start of the year	157,667,695	145,877,325
Deposits during the year	313,898,476	278,928,629
Withdrawals/refunds during the year	(301,361,524)	(267,138,259)
	170,204,647	157,667,695
Total member savings	**3,422,840,210**	**3,102,359,566**

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).

16. Share capital

	2019 Shs	2018 Shs
At start of year	191,678,820	163,036,917
Contributions for the year	46,532,459	28,641,903
At end of year	238,211,279	191,678,820
Comprising of:		
Paid up	220,630,160	191,274,800
Partly paid	17,581,119	404,020
	238,211,279	191,678,820

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:-

		2019 Shs	2018 Shs
i)	**Statutory reserve**		
	At start of year	45,279,513	39,226,845
	Transfer from appropriation reserve	8,489,980	6,052,668
	At end of year	**53,769,493**	**45,279,513**
ii)	**Appropriation reserve**		
	At start of year	105,645,841	105,254,452
	IFRS 9 transition adjustment	-	(1,789,049)
	Interest written back to provisions	-	592,357
	Fair value gain/(loss)	624,372	(6,473,939)
	Honoraria and staff bonus	(4,455,000)	(4,185,000)
	Surplus for the year	42,449,900	40,922,281
	Transfer of from revaluation reserve	-	980,000
	Transfer to statutory reserve	(8,489,980)	(6,052,668)
	Tax adjustment	-	(2,267,696)
	Proposed dividend	(21,622,407)	(21,334,897)
	At end of year	**114,152,726**	**105,645,841**
iii)	**RMF reserve fund**		
	At start and end of year	**67,204,946**	**67,204,946**
(iv)	**Revaluation reserve**		
	At start of year	2,538,687	980,000
	Surplus on revaluation of property and equipment	(384,200)	2,538,687
	Transfer of excess depreciation	-	(980,000)
	At start and end of year	**2,154,487**	**2,538,687**
(v)	**Fair value reserve**		
	At start of year	30,176,653	33,699,538
	Fair value (loss)/gain on income from other financial assets at fair value through other comprehensive income	3,187,372	(3,522,885)
	At end of year	**33,364,025**	**30,176,653**

17 Reserves ...Cont'

iv) Dividend account

The total proposed dividend for the year is 10% of investment shares (2018: 12%) amounting to a total of Shs. 21,622407 (2018: Shs. 21,334,897).

	2019 Shs	2018 Shs
At start of year	21,334,897	11,683,444
Paid during the year	(21,334,897)	(11,652,605)
Overprovision in prior year	-	(30,839)
Proposed during the year	21,622,407	21,334,897
At end of year	**21,622,407**	**21,334,897**

18. Related party transactions

	2019 Shs	2018 Shs
i) Outstanding balances arising related party transactions		
Receivable from related parties (Note 7)	44,954,080	44,954,080
ii) Key management personnel remuneration		
Short term employee benefits	29,752,638	27,471,728
Post employment benefits	2,240,863	1,155,600
	31,993,501	28,627,328

19. Commitments

Contractual commitments for the acquisition of investment properties

	2019 Shs	2018 Shs
At the reporting date these commitments were as follows:		
Investment properties	0	4,975,297

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.

	2019 Shs	2018 Shs
Effect on surplus - arising from loans and advance - increase	24,517,832	23,140,582
Effect on surplus - arising from members balances (decrease)	(17,164,648)	(16,877,315)

b. Credit risk

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

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

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.

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.

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, cross-collateralisation 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

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 amortization 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 shared 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 homogeneous 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 2019	Current to 1 year Shs	1 to 5 years Shs	Total Shs
Member savings	170,204,647	3,252,635,563	**3,422,840,210**
Other payables	35,522,828	-	**35,522,828**
Interest due to members	257,469,717	-	**257,469,717**
	463,197,192	**-**	**3,715,832,755**

Year ended 31 December 2018	Current to 1 year Shs	1 to 5 years Shs	Total Shs
Member savings	157,667,695	2,944,691,871	**3,102,359,566**
Other payables	29,339,480	-	**29,339,480**
	253,159,732	-	**253,159,732**
	440,166,907	**-**	**3,384,858,778**

21. Risk management fund

Statement of income and expenditure	2019 Shs	2018 Shs
Income		
Members contributions during the year	24,057,599	18,962,264
Premiums on loans issued	9,171,070	9,789,305
Total income	33,228,669	28,751,569
Other income		
Interest earned	5,383,256	5,040,596
Other income	1,152,600	15,000
Total other income	6,535,856	5,055,596
Total income	**39,764,525**	**33,807,165**
Expenses		
Members refund and loan offset	5,359,081	3,381,069
Loans written off	1,152,600	992,831
Funeral expenses paid	340,000	120,000
Committee expenses	540,000	510,000
Insurance premium	15,651,747	15,382,069
Bank charges	-	-
Total claims	**23,043,428**	**20,385,969**
Net surplus for the year	**16,721,097**	**13,421,196**

Risk management fund is a source of fund contributed by the members for insurance of loans. This fund is reinsured by the CIC 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 acquired a license from Sacco Societies Regulatory Authority (SASRA) effective January 2020.

23. Governance expenses

	2019 Shs	2018 Shs
ADM expenses	3,867,160	4,847,719
Delegates education	3,049,000	3,659,481
Members education	2,793,015	2,640,254
Board and branch officials training	4,317,272	4,638,165
Board sitting allowances	5,805,650	6,270,300
Board travel and other expenses	5,630,310	5,684,239
Branch meeting expenses	1,619,190	1,088,175
Board insurance	410,252	275,052
Ushirika day celebrations	785,700	599,850
Total governance expenses	**28,277,549**	**29,703,235**

24. Administrative expenses

Employment:		
Salaries and wages	32,481,938	30,523,607
Staff medical	3,096,501	2,799,059
Staff GPA insurance	101,319	12,130
National Social Security Fund	53,800	50,000
Provident fund	2,237,863	1,925,939
Staff education	2,981,293	2,953,620
Total employment costs	40,952,714	38,264,355
Other administrative expenses:		
Travel and subsistence	1,804,420	2,320,609
Printing and stationery	1,533,442	1,424,809
Cash in transit expenses	313,515	245,842
Audit fees	725,000	850,000
Supervision and filing fee	72,700	85,200
VAT charge non recoverable	116,000	136,000
Strategic plan and consultancy expenses	1,328,920	339,000
Legal fees	-	56,210

24. Administrative expenses ...Cont'

	2019 Shs	2018 Shs
Bank charges	1,001,285	731,734
Systems audit	694,830	0.00
Dividend computation expenses	25,000	25,000
Social responsibility	178,750	450,000
Subscription and donations	331,625	263,000
Entertainment	1,114,853	767,911
Telephone and postage and airtime	1,103,076	1,205,171
Marketing, publicity and advertisement	4,255,852	5,842,808
Motor vehicle expenses	639,128	632,447
Recruitment commission	19,300	12,600
Computer expenses	1,170,779	1,279,602
Sundry expenses	816,941	764,850
Cleaning expenses	2,163,713	2,309,992
Total other administrative expenses	19,409,129	19,742,785
Total administrative expenses	**60,361,843**	**58,007,140**

25. Other operating expenses

	2019 Shs	2018 Shs
Establishment:		
Depreciation on property and equipment	3,124,842	2,758,600
Amortization of intangible assets	167,969	1,974,061
Loss on disposal of assets held-for-sale	-	-
Rates and rent	295,542	887,094
Security expenses	2,847,300	2,271,734
Water, fuel and electricity	1,380,004	822,952
Repair and maintenance	500,835	877,947
Total other operating expenses	8,316,492	9,592,388

26 Honoraria and staff bonus

	2019 Shs	2018 Shs
Honoraria	2,605,000	2,485,000
Staff bonus	1,850,000	1,700,000
	4,455,000	4,185,000

27. Deferred tax

Deferred 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 Co-operative 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.

29. Presentation currency

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

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