KENPIPE SAVINGS AND CREDIT
CO-OPERATIVE SOCIETY LIMITED

Annual Report And Financial Statements For The Year Ended 31 December 2017

KENPIPE SAVINGS AND CREDIT
CO-OPERATIVE SOCIETY LIMITED
CS/NO: 3468

Our Future, Today!

VISION

First choice financial solution partner

MISSION

Provision of competitive financial services and investment opportunities

Innovativeness

Professionalism

Ethical and Social Responsibility

Sincerity

Accountability

CONTACTS

Kenpipe Sacco Ltd

P. O. Box 314-00507, Nairobi, Tel/Fax: 020-550971, Cell: 0710 600 999, 0735 700 971

Email: kenpipe.sacco@kpc.co.ke, info@kenpipesacco.com, Website: www.kenpipesacco.com

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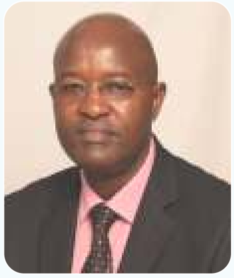
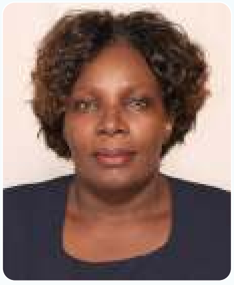
BOARD OF DIRECTORS


Vitalis Opapo
Chairman

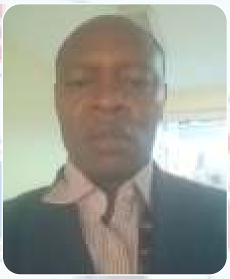

George Simiyu
Vice Chairman


Adrew Gisore
Hon.Secretary


Daniel Nzuki
Treasurer


Kellen Ndungu
Member


Elizabeth Kinyua
Member


Henry Mwangi
Member


Joyce M. Owuor
Member


Jackson Nyandega
Member


Mwasambu Mbango
CEO

SUPERVISORY COMMITTEE MEMBERS


Francis Cherutich
Secretary


Mercy Wesitula
Secretary


George Metho
Member

SOCIETY INFORMATION

BOARD OF DIRECTORS	: Vitalis Opapo	- Chairman
	: George Simiyu	- Vice Chairman
	: Andrew Gisore	- Hon. Secretary
	: Daniel Nzuki	- Hon. Treasurer
	: Kellen Ndung'u	- Director
	: Elizabeth Kinyua	- Director
	: Jackson Nyandega	- Director
	: Joyce M. Owuor	- Director
	: Henry Mwangi	- Director
SUPERVISORY COMMITTEE	: Francis Cherutich	- Chairman
	: Mercy Wesitula	- Secretary
	: George Metho	- Member
MANAGEMENT	: Mwasambu Mbango Charles	- Chief Executive Officer
	: Kenneth Hinga	- Finance Manager
	: Thomas Njoka	- Fosa Manager
REGISTERED OFFICE	: Kenya Pipeline Company Limited	
	: Nairobi Terminal, Nanyuki Road, Off Sekondi Road	
	: P.O. Box 314, 00507	
	: NAIROBI	
INDEPENDENT AUDITOR	: PKF Kenya	
	: Certified Public Accountants	
	: P.O. Box 14077, 00800	
	: NAIROBI	
PRINCIPAL BANKERS	: Co-operative Bank of Kenya Limited	
	: Industrial Area Branch	
	: Equity Bank Limited	
	: Kenpipe Plaza	
	: Commercial Bank of Africa	
	: Industrial Area Branch	
LEGAL ADVISORS	: Millimo, Muthomi and Company Advocates	
	: 4th Floor, Agip House	
	: Haile Selassie Avenue	
	: NAIROBI	
	: Wekesa and Simiyu Advocates	
	: 8th Floor, Lenana Towers	
	: Lenana Road	
	: NAIROBI	

CHAIRPERSON'S STATEMENT

Dear Members,

On behalf of Kenpipe Sacco Board of Directors and Management, it is my pleasure to present to you the Sacco's annual report and financial statements for the financial year ended 31 December 2017. I would like to welcome you all to our Annual Delegates Meeting. We have converged hereon this day in order to review our past year's performance and project our future. I wish to thank everyonefor your support in making Kenpipe Sacco what it is today.

Operating environment

The interest rates and Kenya shilling remained stable during the year, however the general elections slowed down the business as majority of savers and borrowers took a "wait and see" approach. Most financial institutions recorded a decline in profit mainly attributed to the interest rate capping and economic slowdown occasioned by the general elections.

The year 2017 saw our parent company Kenya Pipeline Company continue to grant mortgage facility to its employees who are members of our Sacco.This had the effect of reduced member deposits and low loans uptake. This significantly affected the Sacco assets growth as some members had to withdraw their deposit contributions whereas some had to re-schedule their running loans. These factors did not however deter Kenpipe Sacco Board and Management from continuing with the roll out of its core activities during the year which saw the Society continue to post impressive results, despite the many challenges.

Performance

In January 2017 the Sacco reviewed the interest rates charged on loans downwards in order to comply with the law on interest capping which was enacted in the 4th quarter of the year 2016. Despite the reduction interest on loans, the total income in 2017 increased to Kshs 294.7 Million from Ksh 294.4 Million in 2016. Our membership grew to 2,576 members as at 31 December 2017 up from 2015 members in 2016 a total of 561 new members. The Board has continually mobilized and invested resources in recruitment of new members to meet our annual target of 600 members. During the second half of the year
the Board recruited three sales executives and opened a marketing office at Trance Towers in Nairobi's South B to boost the Sacco's marketing and presence. I appeal to everyone here to assist us in recruiting our spouses,children, relatives and friends in order to grow our Sacco.

Our member deposits grew by 10.12% from Kshs 1.577 Billion in 2016 to Kshs 1.737 Billion in 2017 The Total Assets also increased to Kshs 2.350 Billion as at 31 December 2017 from Kshs 2.106 Billion as at 31 December 2016 representing a growth of 11.60%.Institutional Capital increased to 15% from 13.76% in 2016.As the Society grows, we will strive to increase our Institutional Capital to ensure that the Sacco is built on a solid base that can withstand shocks and undertake Capital Projects.

Human resource

As a key pillar and driver of business in achieving strategic goals, since the beginning of 2017 we have witnessed an increase in business performance and sustainable growth into the future not withstanding the challenges faced. We have adopted a more realistic approach in monitoring employee performance through performance contracting using Key Performance Indicators for the staff. All staff were put on performance contract which to date has transformed their performance. As we face the future we have embarked on a re-structuring exercise and we remain optimistic of positive results going forward. During the year we continued to empower our staff through training.

Awards and recognition

Kenpipe Sacco has continued to lead countrywide in deposits mobilization. In recognition of this we were recognized by the ICA - Ushirka Day Council as 1st Position Highest Savings Management Sacco in Kenya-Second tier category. In the last quarter of the year we received a delegation of international guests from Public Service Microfinance Company of Zambia, who had come for a benchmarking study of Kenpipe Sacco to enable them convert their MFI to a Sacco.The MFI is sponsored by the government of Zambia. Kenpipe was selected for the benchmark because of the government's recognition of our performance and management.

CHAIRPERSON'S STATEMENT (CONTINUED)

Future strategic outlook
During the year, the Sacco increased the maximum loan limit and maximum loan repayment period to Ksh. 7 Million and 72 months respectively besides introducing a specific loan (Almasi loan) for our retiree members which is self-guaranteeing with interest rate of 9% and repayable in 72 months. We reviewed our policies to re-align them with the ever changing business environment and competition We have automated weekend njema loan to be delivered through the ICT platform and we are in the process of automating salary advance and other short-term loans. The Sacco sub-sector is becoming more and more competitive; to sustain our competitiveness we shall endeavor to grow our market share through alternative channels while maintaining our focus on delivering our corporate business mandate as anchored in our 5-year Strategic Plan for the period 2017 - 2012. In our strategic plan, we have identified that; our core business is to provide savings, investment avenues and advance loans to members.

To survive in the coming years, our Sacco will need to continually explore the potential of expanding its operations by seeking to introduce new innovative products and services in order to broaden the revenue base. Any diversification opportunities will be looked into within the context of the core business. The feeling of the Society is that success will come from concentrating on the initial core business;however, there is need to expand.The Board and Management is therefore proposing the following as options for expansion as envisioned in our strategic plan.

1. Register an investment vehicle - form a subsidiary company that will be used for investments by Kenpipe Sacco .This will take care of the other investments areas which the law does not allow Saccos to operate in directly..

2. Residential houses in prime towns - acquire land in prime towns and build rental houses in 3 phases

3. Gated community project - acquire 100 acres of land, subdivide and dispose or construct houses and sell them

4. Build a commercial building - acquire land in prime towns and build a commercial building of atleast 4 floors

5. Build a resort - acquire land outside Nairobi and build a resort.

As addressed in last year's ADM,the Sacco's 2017 - 2021 strategic plan will require the commitment and support of every member in order to be realized.The focus is expected to monitor and evaluate the Sacco to ensure it is moving forward as envisioned.

Payment of interest rebate and dividends

This year, the Board of Directors recommends payment of 16% dividend on share capital and 11%interest on members' deposits. As the Board has frequently communicated, the Sacco is on a core capital build up exercise order to enhance compliance to regulatory requirements. The Board therefore recommends that the dividend is not paid out in cash but retained and credited to the respective member's share capital accounts

CHAIRPERSON'S STATEMENT (CONTINUED)

Tribute
Lastly I would like to salute our long serving Chairperson, Joyce Owuor who retired from the chairmanship last year. We all appreciate her dedication and efforts in making the Sacco reach where it is today. I would like to express my sincere gratitude to our esteemed members for their continued support and partronage of Sacco's products and services. There is no doubt that the members are at the core of the Sacco's success. I wish to thank my fellow directors for their dedication and insights, and our staff for their hard work and commitment to the Sacco,while recognizing with appreciation the facilitation of Kenya Pipeline Company Management.

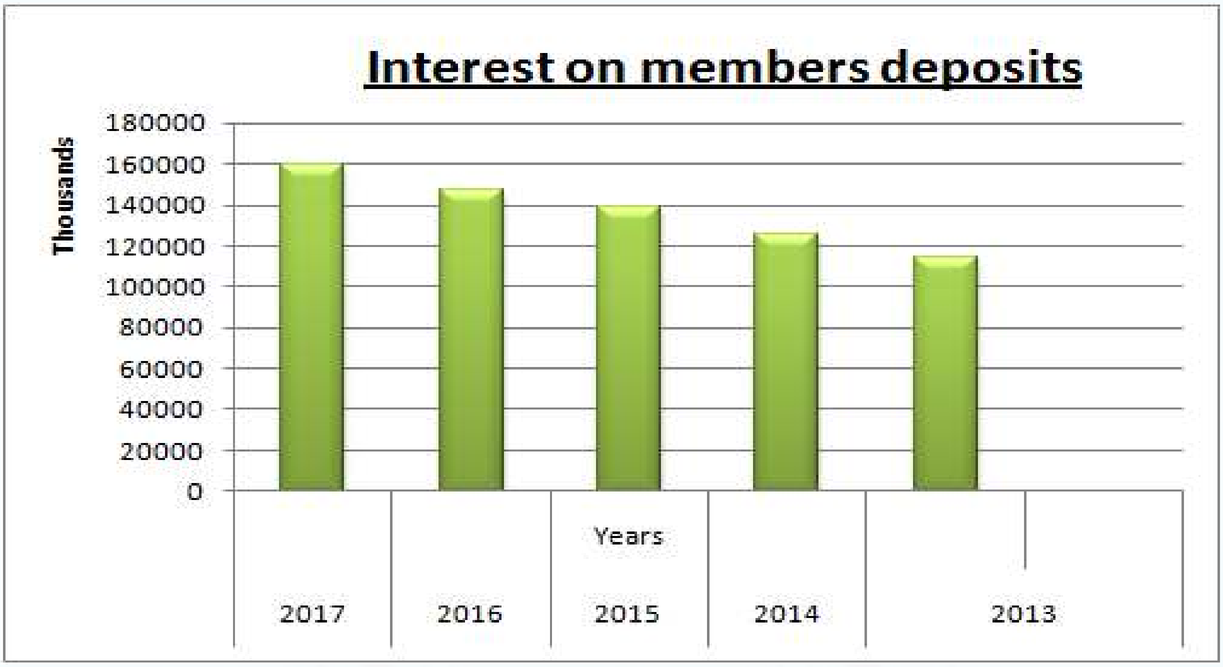
Last but not least I would like to appreciate our stakeholder; the Ministry of Industrialization and Co-operatives,SASRA our Suppliers, Bankers etc for their support during the year.

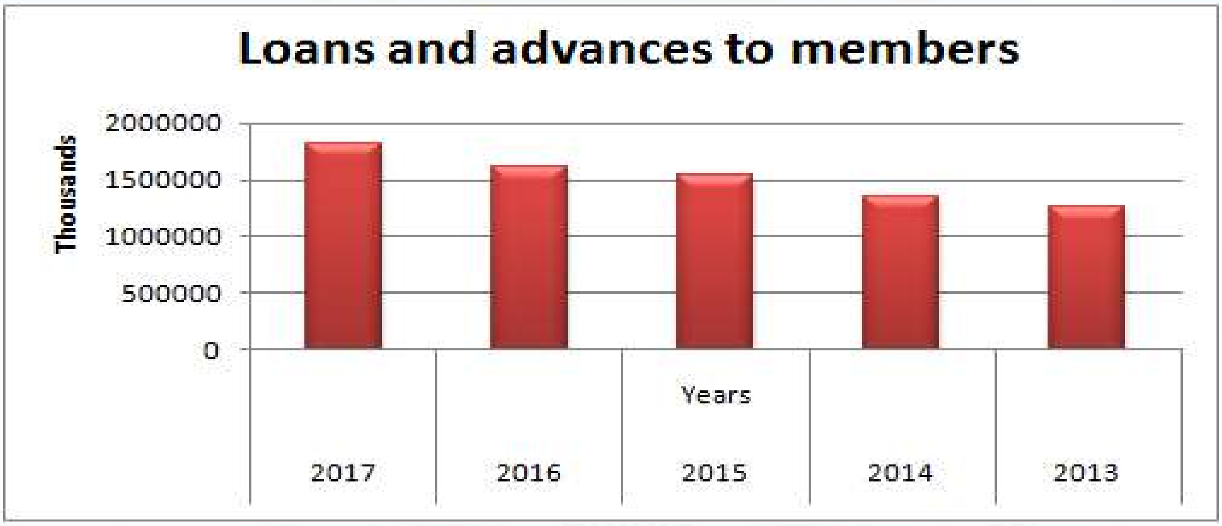
God bless the co-operative movement. God bless Kenpipe Sacco

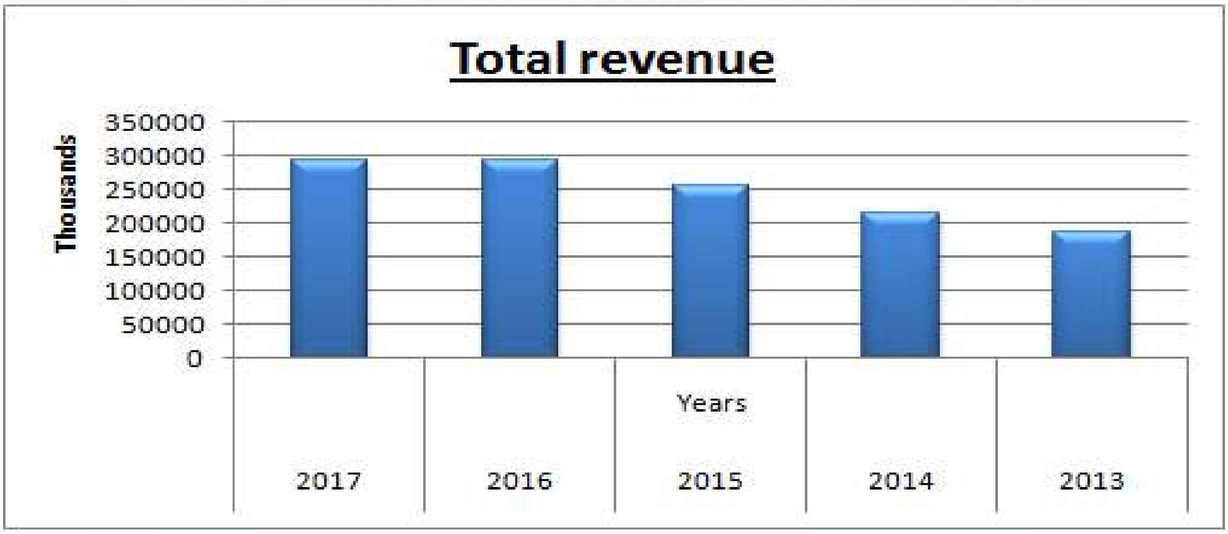
Date: **14th February 2018**

Vitalis Opapo.

COMPARATIVE PERFORMANCE HIGHLIGHTS







REPORT OF THE DIRECTORS

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

Incorporation

The society is incorporated in Kenya under the Co-operative Societies Act, Cap. 490 and is domiciled in Kenya. It was registered as a Sacco under the Sacco Societies Act with effect from 20 May 1981.

Principal activity

The principal activity of the society continues to be receiving shares and deposits and providing loans and advances to its members.

Business review

The total interest income of the society increased from Shs. 267 million to Shs. 277 million. The increase is directly attributed to growth in the loan book to the members compared to prior year. Profit before tax decreased from Shs. 65 million to Shs. 58 million compared to prior year. This is attributed to increase in interest on member deposits, staff costs and governance expenses.

As at 31 December 2017, the net asset position of the society was Shs. 419 million compared to Shs. 353 million as at 31 December 2016.

Principal risks and uncertainties

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the society's services. The society's strategic focus is to enhance revenue growth whilst maintaining profit 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 21 of the financial statements.

Share capital

The issued and paid up share capital of the society was increased during the year from Shs. 63,096,174 to Shs. 74,031,190.

Dividends and interest

The directors recommend payment of first and final dividend of Shs. 3.20 per share (2016: Shs. 3.20 per share) amounting to 16% (2016: 16%). They also recommend interest on member's deposit of 11% (2016: 11%).

Board of directors

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

REPORT OF THE DIRECTORS (CONTINUED)

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

PKF Kenya continues in office in accordance with the Sacco Societies Act No. 14 of 2008. 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……14th February……2018

Hon Secretary

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to manage business affairs of the society towards enhancing prosperity and corporate accounting with the ultimate objective of realizing members' long term value while taking into account the interest of other stakeholders.

The board of directors are responsible for the corporate governance practices of the society. This statement 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.

Board of directors

The board meets monthly to deliberate on the society's financial performance and discuss reports from each sub-committee and deal with any strategic issues and opportunities for the sacco. Board and committee papers are supplied in time to members, in appropriate form and quality to facilitate effective deliberations. Board of directors have access to relevant information through the office of the Chief Executive Officer.

Board meetings are held in line with the annual calendar except when critical business necessitates ad hoc meetings. The following meetings were held during the year ended 31 December 2017:

	No. of meetings	Membership	Average attendance %
Full board	11	9	81
Finance, Administration and HR Committee	12	4	89
Credit Committee	12	3	92
Business Development, Education/Marketing Committee	11	3	71
Audit and Risk Management Committee	10	3	78

Board sub-committees

The society had the following sub-committees in place during the year with terms of reference clearly defined in the by laws to facilitate decision making of the management board in the execution of its powers, duties and authorities.

1. Finance, Administration and HR Committee	Chaired by: Daniel Kioko
2. Credit Committee	Chaired by: Elizabeth Kinyua
3. Business Development, Education/Marketing Committee	Chaired by: George Simiyu
4. Audit and Risk Management Committee	Chaired by: Jackson Nyandega

To the best of our knowledge, no situation of conflict of interest arose at the board.

Internal controls

The society has systems and processes to ensure that requisite controls, physical security of assets and reporting of accurate and up-to date information with a comprehensive accounting system is in place.

FINANCIAL AND STATISTICAL INFORMATION

		As at 31 December	
		2017	**2016**
		Numbers	**Numbers**
Membership	Active	2576	2015
	Dormant	515	330
Number of branches		1	1
Number of employees		16	16

Financial	**2017 Shs**	**2016 Shs**
Total assets	2,350,325,874	2,105,828,586
Members' deposits	1,737,231,602	1,577,341,143
Loans and advance to members	1,812,658,944	1,609,097,926
Provision for loan losses	500,932	4,258,185
Investments	89,353,116	74,115,570
Total revenue	294,722,207	294,450,199
Total interest income	277,236,062	266,949,299
Total expenses	240,966,709	229,754,203
Share capital	74,031,190	63,096,174
Statutory reserve	69,210,437	58,988,721
Appropriation account	170,237,469	143,935,266
Core capital	419,314,192	352,915,034
Institutional capital	345,283,002	289,818,860
Loan loss reserve	20,763,374	18,023,706

Key ratios:

Capital adequacy ratios	**2017 %**	**2016 %**
Core capital/Total assets	18%	17%
Minimum ratio	10%	10%
Core capital/Total deposits	24%	22%
Minimum ratio	8%	8%
Institutional capital/Total assets	15%	14%
Minimum ratio	8%	8%
Liquidity ratio		
Liquid assets/Total deposits and short-term liabilities	25%	26%
Minimum ratio	15%	15%
Operating efficiency/loan quality ratios		
Total expenses/Total revenue	82%	78%
Interest on members deposits/Total revenue	11%	53%
Interest rate on members' savings	11%	11%
Dividend rate on members share capital	16%	16%
Total delinquent loans/Gross loan portfolio	0.0%	0.3%

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Sacco Societies Act No. 14 of 2008 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 profit or loss 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 Sacco Societies Act. The directors are also responsible for safeguarding the assets of the society 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 these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Sacco Societies Act. The also accept responsibility for:

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008.

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

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

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on **14th February** 2018 and signed on its behalf by:

______________________ **Chairman**

______________________ **Treasurer**

______________________ **Board member**

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

Opinion

We have audited the financial statements of Kenpipe Savings and Credit Co-operative Society Limited (the society) set out on pages 15 to 42, which comprise the statement of financial position as at 31 December 2017, statement of profit or loss and other 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 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Sacco Societies Act No 14 of 2008.

Basis for opinion

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

Key audit matters

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

Impairment of loans and advances

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

Key audit matters (continued)

Impairment of loans and advances (continued)

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

Other information

The directors are responsible for the other information. The other information comprises the chairperson's statement, comparative performance highlights, report of the directors, corporate governance statement and the financial and statistical information that comprise the annual report but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008 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.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) 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 ISAs, we exercise professional judgment 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 director's 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 society to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

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

Auditor's responsibilities for the audit of the financial statements (continued)

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Chaudhry Mohamed Asif - P/No. 2059.

PKF Kenya.

Certified Public Accountants
Nairobi

14th February 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue	**Notes**	**2017 Shs**	**2016 Shs**
Interest income:			
Interest on loans and advances	2 (a)	253,953,849	243,762,080
Other interest income	2 (b)	23,282,213	23,187,219
Total interest income		277,236,062	266,949,299
Interest expense	2 (c)	(168,057,087)	(156,277,957)
Net interest income		109,178,975	110,671,342
Other operating income	2 (d)	17,486,145	27,500,900
Total operating income		126,665,120	138,172,242
Impairment charge on loan and advances	8	(500,932)	(4,258,185)
Recovery on loans and advances		4,258,185	-
Governance expenses	3 (b)	(20,663,593)	(16,267,043)
Staff costs	4	(34,666,425)	(30,519,919)
Other administrative expenses	23	(7,155,559)	(12,405,926)
Other operating expenses	24	(9,923,113)	(10,025,173)
Profit before tax	3	58,013,683	64,695,996
Income tax expense	5	(6,905,105)	(10,656,429)
Net profit proposed for appropriation		51,108,578	54,039,567
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
- Gain/(loss) on fair valuation of financial assets	9	15,211,528	(9,441,233)
- Deferred tax thereon	16	(760,576)	472,062
Total comprehensive income		65,559,530	45,070,396
Dividend:			
Proposed dividend for the year		11,844,991	10,095,388

The notes on pages 19 to 42 form an integral part of these financial statements.

Report of the independent auditor - pages 11 to 14.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 Shs	2016 Shs
ASSETS			
Cash and bank balances	6	428,964,381	411,535,920
Receivables and prepayments	7	7,229,338	5,182,096
Loans and advances to members	8	1,812,158,012	1,604,839,741
Financial assets	9	89,353,116	74,115,570
Property and equipment	10	6,784,036	5,338,800
Intangible assets	11	3,438,516	4,477,288
Tax recoverable	15	2,398,475	339,170
Total assets		2,350,325,874	2,105,828,585
LIABILITIES			
Other payables	12	21,868,955	16,200,989
Interest due	13	168,057,087	156,277,957
Member deposits	14	1,737,231,602	1,577,341,143
Deferred tax	16	3,854,038	3,093,462
		1,931,011,682	1,752,913,551
FINANCED BY			
Share capital	17	74,031,190	63,096,174
Statutory reserve	18 (i)	69,210,437	58,988,721
Loan loss reserve	18 (ii)	20,763,374	18,023,706
Fair value reserve	18 (iii)	73,226,731	58,775,779
Appropriation account	18 (iv)	170,237,469	143,935,266
Proposed dividend	18 (v)	11,844,991	10,095,388
		419,314,192	352,915,034
Total liabilities and capital		2,350,325,874	2,105,828,585

APPROVED for publication and presentation to AGM or ADM subject to observations issued
15 FEB 2018
SIGN:
THE SACCO SOCIETIES REGULATORY AUTHORITY

The financial statements on pages 15 to 42 were approved and authorised for issue by the Board of Directors on 14th February 2018 and were signed on its behalf by:

Chairman

Treasurer

Board member

The notes on pages 19 to 42 form an integral part of these financial statements.

Report of the independent auditor - pages 11 to 14.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016	Notes	Share capital Shs	Appropriation account Shs	Statutory reserve Shs	Loan loss reserve Shs	Fair value reserve Shs	Proposed dividend Shs	Total Shs
At start of the year		42,196,994	114,705,832	48,180,808	14,116,875	67,744,950	6,751,519	293,696,978
Total comprehensive income		-	54,039,566	-	-	- 8,969,171	-	45,070,395
Transfer to statutory reserve		-	(10,807,913)	10,807,913	-	-	-	-
Transfer to loan loss reserve		-	(3,906,831)	-	3,906,831	-	-	-
Transactions with owners:								
Issue of investment shares	17	20,899,180	-	-	-	-	-	20,899,180
Dividends:								
- Paid 2015	18 (v)	-	-	-	-	-	(6,751,519)	(6,751,519)
- Proposed 2016	18 (v)	-	(10,095,388)	-	-	-	10,095,388	-
At end of year		63,096,174	143,935,266	58,988,721	18,023,706	58,775,779	10,095,388	352,915,034
Year ended 31 December 2017								
At start of the year		63,096,174	143,935,266	58,988,721	18,023,706	58,775,779	10,095,388	352,915,034
Total comprehensive income		-	51,108,578	-	-	14,450,952	-	65,559,530
Transfer to statutory reserve		-	(10,221,716)	10,221,716	-	-	-	-
Transfer to loan loss reserve		-	(2,739,668)	-	2,739,668	-	-	-
Transactions with owners:								
Issue of investment shares	17	10,935,016	-	-	-	-	-	10,935,016
Dividends:								
- Paid 2016	18 (v)	-	-	-	-	-	(10,095,388)	(10,095,388)
- Proposed 2017	18 (v)	-	(11,844,991)	-	-	-	11,844,991	-
At end of year		74,031,190	170,237,469	69,210,437	20,763,374	73,226,731	11,844,991	419,314,192

The notes on pages 19 to 42 form an integral part of these financial statements.

Report of the independent auditor - pages 11 to 14.

STATEMENT OF CASH FLOWS

	Notes	2017 Shs	2016 Shs
Cash from operating activities			
Interest income on member loans	2(a)	253,953,849	243,762,080
Other interest income	2(b)	23,282,213	23,187,219
Other operating income		11,375,910	8,066,256
Payment to employees and suppliers		(70,317,752)	(60,086,681)
Interest paid to members	13(a)	(147,084,705)	(138,630,156)
		71,209,515	76,298,718
Decreased in operating aasets			
Net loans and advances to members	8	(207,819,203)	(75,639,148)
Increase in operating liabilities			
Deposits from members	14	159,890,459	121,114,448
Income tax paid	15	(8,964,410)	(12,629,087)
Net cash from operating activities		14,316,361	109,144,931
Investing activities			
Cash paid for purchase of property and equipment	10	(3,157,533)	(422,640)
Cash paid for purchase of intangible assets	11	(680,230)	-
Cash paid for purchase of financial assets		-	(3,872,679)
Dividends received	2(d)	6,110,235	5,243,902
Net cash from investing activities		2,272,472	948,583
Financing activities			
Proceeds from issue of shares	17	10,935,016	20,899,180
Dividend paid		(10,095,388)	(6,751,519)
Net cash from financing activities		839,628	14,147,661
Increase in cash and cash equivalents		17,428,461	124,241,175
Cash and cash equivalents at start of year		411,535,920	287,294,745
Cash and cash equivalents at end of year	6	428,964,381	411,535,920

The notes on pages 19 to 42 form an integral part of these financial statements.

Report of the independent auditor - pages 11 to 14.

NOTES

1. **Significant accounting policies**

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

a) **Basis of preparation**

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

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

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

Going concern

The financial performance of the society is set out in the director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 21.

Based on the financial performance and position of the society and its risk management policies, the directors are of the opinion that the society is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New and amended standards adopted by the society

A number of new and revised Standards and Interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements.

New standards, amendments and interpretations issued but not effective

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

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' (Annual Improvements to IFRSs 2014–2017 Cycle, issued in December 2017) - The amendment, applicable to annual periods beginning on or after 1 January 2018, clarifies that exemption from applying the equity method is available separately for each associate or joint venture at initial recognition.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) that is effective for annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

- Amendments issued in June 2017 to IFRS 2 'Share - based Payment' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.

- Amendments to IFRS 4 titled Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued in September 2017) that are effective for annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial.

- IFRS 9 ‘Financial Instruments’ (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

  IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

  In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is at is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.

  In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.

- IFRS 15 ‘Revenue from Contracts with Customers’ (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 ‘Construction Contracts’, IAS 18 ‘Revenue’ and their interpretations (SIC-31 and IFRIC 13,15 and 18).It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.

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

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

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

b) **Critical estimates and judgement**

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

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

- **Impairment losses on loans and advances**

The society reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the society makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The directors use estimates based on historical loss experience, industry experience and regulatory guidance and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Critical estimates have been made by the directors in determining the recoverability of collateral in the form of cross guarantees in order to arrive at the impairment charges for non-performing loans and advances.

- **Useful lives of property and equipment and intangible assets.**

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

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

b) **Critical estimates and judgement (continued)**

- **Fair value of financial instruments**

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

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

c) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the performance 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 commisions are recognised when the right to receive income is established.

Other income

i) Entrance fee is recognised when a new member joins the society.
ii) Dividend is recognised when the right to recieve income is established. Dividend are reflected as a component of other operating income based on the underlying classification of the equity instrument.
iii) Non interest income from FOSA is recognised upon performance of the services rendered.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

d) **Property and equipment**

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

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 profit or loss during the financial year in which they are incurred.

Depreciation is calculated using the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates in use are:

Asset	**Rate (%)**
Furniture and fittings	10
Computers and accessories	33.3
Motor vehicle	25
Office equipments	10
Leasehold improvements	10

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 profit.

e) **Intangible assets**

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

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life.

f) **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.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

f) **Financial instruments (continued)**

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

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

Interest on available-for-sale securities is calculated using the effective interest method and is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are also recognised in profit or loss as part of other income when the society's right to receive payments is established.

- **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

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

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

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

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

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

Gains and losses on disposal of assets whose changes in fair value were initially recognised in profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit. 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:

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

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

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

f) **Financial instruments (continued)**

Financial liabilities

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

- **Financial liabilities measured at amortised cost**: These include borrowings, other payables member deposits and other creditor 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.

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.

g) **Leases**

i) **Finance lease**

Leases of property and equipment where the society assumes substantially all the benefits and risks of ownership are classified as finance leases. Assets acquired under finance leases are capitalized at the inception of the lease at the lower of their fair values and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rentals obligations, net of finance charges are included in non-current liabilities while the interest element of the finance charge is charged to the profit or loss account over the lease period.

ii) **Operating leases**

Leases of assets where a significant proportion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortized over the lease period.

h) **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.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

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

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

j) **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 advances or deposits 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.

k) **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.

l) **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.

- **Loan loss reserve**
  Where impairment losses required by legislation or regulation exceed those calculated under International Financial Reporting Standards, the excess is recognised as a regulatory credit risk and accounted for as an appropriation of retained profits. This reserve is not distributable.

- **Appropriation account**
  This comprises retained earnings and is distributable.

- **Proposed dividends**
  Proposed dividends are disclosed as a separate component of equity until approved by the annual delagates meeting. This reserve is distributable.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

l) **Reserves (continued)**

- **Fair value reserve**

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

  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.

m) **Comparatives**

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

NOTES (CONTINUED)

2. **Revenue**

	2017 Shs	2016 Shs
a) **Interest income**		
Interest on loans and advances to members	253,953,849	243,762,080
b) **Other interest income**		
Interest on fixed deposits	23,282,213	23,164,245
Interest income from investments	-	22,974
	23,282,213	23,187,219
Total interest income	277,236,062	266,949,299
c) **Interest expense**		
Interest on member deposits - BOSA	159,229,289	147,084,705
Interest on FOSA deposits	8,827,798	9,193,252
Total interest expense	168,057,087	156,277,957
Net interest income	109,178,975	110,671,342
d) **Other operating income**		
Sundry income from members	1,649,693	1,394,478
Loan appraisal fees	3,687,500	3,162,500
Penalties and fines	167,717	427,380
Commission earned on members products	5,698,985	3,081,897
Miscellaneous income	172,015	14,190,743
Investment income - dividend	6,110,235	5,243,902
Total other operating income	17,486,145	27,500,900

3. **Profit before tax**

The following items have been charged in arriving at profit before tax:

	2017	2016
a) **Administration and other operating expenses**		
Auditors' remuneration	947,430	861,300
Staff costs (Note 4)	34,666,425	30,519,919
Depreciation on property and equipment (Note 10)	1,712,297	1,302,786
Amortisation of intangible assets (Note 11)	1,719,002	2,343,588
Marketing expenses	1,287,917	527,275
b) **Governance expenses**		
Annual delegates meeting	5,118,010	4,084,322
Education board members	2,551,700	1,806,460
Board sitting allowances	3,061,058	3,124,820
Member education	2,996,942	1,372,577
Board travelling/subsistence allowance	2,275,502	1,439,527
Honorarium provision	4,365,748	4,196,054
Ushirika day celebrations	294,633	243,283
	20,663,593	16,267,043

NOTES (CONTINUED)

4. **Staff costs**

	2017 Shs	2016 Shs
Salaries and wages	27,559,173	23,023,120
Other staff cost	5,202,177	5,707,540
Pension costs:		
- defined contribution scheme	1,858,275	1,750,259
- National Social Security Fund	46,800	39,000
Total staff costs	34,666,425	30,519,919

5. **Tax**

	2017 Shs	2016 Shs
Current tax	6,905,105	10,656,429

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

	2017 Shs	2016 Shs
Profit before tax	58,013,683	64,695,996
Tax calculated at a tax rate of 30% (2016: 30%)	17,404,105	19,408,799
Tax effects of:		
- expenses not deductible for tax purposes	72,290,013	67,648,805
- income not subject to tax	(82,789,013)	(76,401,175)
Tax charge	6,905,105	10,656,429

6. **Cash and bank balances**

Cash and bank balances at the end of the year comprise:-

	2017 Shs	2016 Shs
Cash at bank and in hand	145,681,876	124,545,237
Short term bank deposits	283,282,505	286,990,683
Total	428,964,381	411,535,920

The weighted average effective interest rate on short-term bank deposits at year-end was 9.11% (2016: 8.04%).

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**

	2017 Shs	2016 Shs
Deposits and prepayments	3,349,884	2,851,512
Loan interest receivable	998,767	1,309,955
CIC insurance claims receivable	2,880,687	1,020,629
	7,229,338	5,182,096

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.)

NOTES (CONTINUED)

8. **Loans and advances**	**2017 Shs**	**2016 Shs**
At start of year	1,604,839,741	1,533,458,778
Net increase during the year	207,819,203	75,639,148
	1,812,658,944	1,609,097,926
Provision for impairment of loans	(500,932)	(4,258,185)
At year end	1,812,158,012	1,604,839,741
Movement in provisions for impairment of loans		
At start of year	4,258,185	3,039,324
Impairment charge	500,932	4,258,185
Loans written off during the year	-	(3,039,324)
Loans recovered	(4,258,185)	-
At end of year	500,932	4,258,185

The provisions against loans and advances include the following:-

Year end 31 December 2017	**Total provision as per statutory regulations**	**Impairment provision as per IFRS**	**Statutory loan loss reserve**	**Annual transfer (from)/to statutory loan loss reserve**
Loan and advances	21,264,306	500,932	20,763,374	2,739,668
Year end 31 December 2016				
Loan and advances	22,281,891	4,258,185	18,023,706	3,906,831

Provision as per statutory regulations	**2017 Shs**	**2016 Shs**
0 days (Performing - 1%)	17,827,628	15,829,707
1- 30 days (Watch - 5%)	1,009,940	472,340
31 - 180 days (Substandard - 25%)	2,426,739	3,356,306
181- 360 days (Doubtful - 50%)	-	631,689
Over 360 days (Loss - 100%)	-	1,991,849
	21,264,306	22,281,891
Impairment provision as per IFRS		
On specific credit impaired accounts	500,931	4,258,185

The provision at the end of year as per SASRA regulations is Shs. 21,264,306 (2016: Shs. 22,281,891) whereas the provision as per IAS 39 at the end of the year is Shs. 500,931 (2016: Shs. 4,258,185). The society's financial statements are prepared based on the International Financial Reporting Standards framework hence the provisions are based as per IAS 39. However, to comply with SASRA regulations, the sacco has a loan loss reserve to cater for the difference between the provision as per IAS 39 and the SASRA regulations. The increase or decrease in the loan loss reserve is transferred from the appropriation reserve in the statement of changes in equity.

NOTES (CONTINUED)

8. **Loans and advances (continued)**

The society's credit risk arises primarily from loan receivables. The directors are of the opinion that the society's exposure is limited because the debt is widely held. Further disclosures on credit are provided in note 21.

All loans are dominated in Kenya Shillings.

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

	2017 Shs	2016 Shs
Total loans advanced during the year	38,659,923	40,791,801
Total loans outstanding at end of year:		
Loans to key management	6,410,465	5,047,588
Loans to directors	15,083,760	22,770,207
Loans to supervisory committee members	4,316,411	3,938,842
Loans to other employees	12,849,287	9,035,164
Total loans and advances	38,659,923	40,791,801

9. **Financial assets**

Financial assets comprise the following:

	2017 Shs	2016 Shs
At start of year	74,115,570	79,684,124
Additions	-	3,872,679
Bonus shares	26,018	-
Fair value gains/(losses)	15,211,528	(9,441,233)
	89,353,116	74,115,570
Available-for-sale		
Co-opholdings Co-operative Society Limited	86,750,908	71,539,380
Co-operative Insurance Society Limited	1,891,512	1,891,512
KUSCCO Limited	710,696	684,678
Total investments	89,353,116	74,115,570
Income from available for sale financial assets (Note 2(d))	6,110,235	5,243,902

The fair values of financial assets are categorised as follows based on the information set out on accounting policy (a).

	Level 2 Shs	Level 3 Shs	Total Shs
Year ended 31 December 2017			
Available-for-sale	88,642,420	710,696	89,353,116
Year ended 31 December 2016			
Available-for-sale	73,430,892	684,678	74,115,570

Market risk primarily arises from the changes in the market value and the financial stability of the respective quoted companies.
Management monitors the quality of financial assets by:

- discussion at the management and board meetings;
- reference to external historical information available; and
- discussions with the society's investment advisors.

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

NOTES (CONTINUED)

10. **Property and equipment**

Year ended 31 December 2017

	Furniture and fittings Shs	Computers and accessories Shs	Motor vehicle Shs	Office equipments Shs	Leasehold improvements Shs	Total Shs
Cost						
At start of year	2,792,549	6,920,826	2,085,847	1,492,249	2,435,248	15,726,719
Additions	75,000	1,838,970	-	856,065	387,498	3,157,533
At end of year	2,867,549	8,759,796	2,085,847	2,348,314	2,822,746	18,884,252
Depreciation						
At start of year	1,655,394	5,365,798	1,613,484	612,184	1,141,059	10,387,919
Charge for the year	121,215	1,131,219	118,091	173,603	168,169	1,712,297
At end of year	1,776,609	6,497,017	1,731,575	785,787	1,309,228	12,100,216
Net book value	1,090,940	2,262,779	354,272	1,562,527	1,513,518	6,784,036

Year ended 31 December 2016

	Furniture and fittings Shs	Computers and accessories Shs	Motor vehicle Shs	Office equipments Shs	Leasehold improvements Shs	Total Shs
Cost						
At start of year	2,483,409	6,807,326	2,085,847	1,492,249	2,435,248	15,304,079
Additions	309,140	113,500	-	-	-	422,640
At end of year	2,792,549	6,920,826	2,085,847	1,492,249	2,435,248	15,726,719
Depreciation						
At start of year	1,529,043	4,588,401	1,456,030	514,399	997,260	9,085,133
Charge for the year	126,351	777,397	157,454	97,785	143,799	1,302,786
At end of year	1,655,394	5,365,798	1,613,484	612,184	1,141,059	10,387,919
Net book value	1,137,155	1,555,028	472,363	880,065	1,294,189	5,338,800

11. **Intangible assets (software)**

	2017 Shs	2016 Shs
Cost		
At start of year	8,184,888	8,184,888
Additions	680,230	-
At end of year	8,865,118	8,184,888
Amortisation		
At start of year	3,707,600	1,364,012
Charge for the year	1,719,002	2,343,588
At end of year	5,426,602	3,707,600
Net book values	3,438,516	4,477,288

Amortisation costs of Shs. 1,719,002 (2016: Shs. 2,343,588) are included in other operating expenses in the profit or loss.

NOTES (CONTINUED)

12. **Other payables**

	2017 Shs	2016 Shs
Trade payables	1,875,333	1,803,393
Other payables	15,627,874	10,201,543
Honorarium provision	4,365,748	4,196,054
Total other payables	21,868,955	16,200,990

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

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

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

13. **Interest due**

	2017 Shs	2016 Shs
a) **To members**		
At the start of the year	147,084,705	138,630,156
Provisions for the year	159,229,289	147,084,705
Payments during the year	(147,084,705)	(138,630,156)
At end of year	159,229,289	147,084,705
b) **Others**		
At the start of the year	9,193,252	-
Provisions for the year	8,827,798	9,193,252
Payments during the year	(9,193,252)	-
	8,827,798	9,193,252
Total interest due	168,057,087	156,277,957

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

14. **Members' deposits**

	2017 Shs	2016 Shs
Non withdrawable deposits		
At the start of the year	1,376,163,405	1,303,157,299
Net increase during the year	137,942,340	73,006,106
At end of year	1,514,105,745	1,376,163,405
Savings deposits		
At the start of the year	201,177,738	153,069,396
Net increase during the year	21,948,119	48,108,342
At end of year	223,125,857	201,177,738
Total members' deposits	1,737,231,602	1,577,341,143

There are no members holding more than 25% of total members deposits.

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

NOTES (CONTINUED)

15. **Tax receivable/(payable)**

	2017 Shs	2016 Shs
At start of year	(339,170)	1,633,488
Income tax expense	6,905,105	10,656,429
Tax paid	(8,964,410)	(12,629,087)
At end of year	(2,398,475)	(339,170)

16. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%) on temporary differences other than fair value gains on unquoted financial assets which apply a rate of 5% (2016: 5%) as the rate for capital gains tax. The movement on the deferred tax account is as follows:

	2017 Shs	2016 Shs
At start of year	3,093,462	3,565,524
Charge/(credit) to other comprehensive income	760,576	(472,062)
At end of year	3,854,038	3,093,462

17. **Share capital**

	2017 Shs	2016 Shs
At start of year	63,096,174	42,196,994
Contributions for the year	10,935,016	20,899,180
At end of year	74,031,190	63,096,174

18. **Reserves**

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

	2017 Shs	2016 Shs
i) Statutory reserve	69,210,437	58,988,721
ii) Loan loss reserve	20,763,374	18,023,706
iii) Appropriation account	170,237,469	143,935,266
iv) Fair value reserve	73,226,731	58,775,779

v) Proposed dividends

The total proposed dividend for the year is 16 % of investment shares (2016: 16%) amounting to a total of Shs. 11,844,991 (2016: Shs. 10,095,388).

Refer to accounting policy 1(l) for disclosures on reserves.

NOTES (CONTINUED)

19. **Related party transactions**

i) **Insider deposits**

Total deposits and savings outstanding at end of year:	2017 Shs	2016 Shs
Due to key management	1,042,689	1,040,409
Due to directors	17,341,063	21,349,883
Due to supervisory committee members	4,538,875	3,670,107
Due to other employees	5,895,926	5,940,614
Total deposits and savings	28,818,553	32,001,013

ii) **Key management personnel remuneration**

Short term employee benefits	9,100,290	9,092,530
Honorarium/allowances	4,365,748	4,196,054
	13,466,038	13,288,584

Refer to Note 8 for loans to insiders.

20. **Contingent liability**

The society is a defendant in various legal actions. In the opinion of the directors and after taking appropriate legal advice, the outcome will not give rise to any significant loss or liability to the society.

21. **Risk management objectives and policies**

Financial risk management

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

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

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

(a) **Market risk**

- *Interest rate risk*

The society's exposure to interest rate risk arises from borrowings and financial assets.

Loan and advances and members deposits are fixed interest securities and therefore not susceptible to market interest rate changes. 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.

NOTES (CONTINUED)

21. **Risk management objectives and policies (continued)**

(a) **Market risk (continued)**

- *Interest rate risk (continued)*

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

	2017	**2016**
	Shs	**Shs**
Effect on profit - arising from loans and advance - increase	37,907,391	43,721,780
Effect on profit - arising from members deposit - (decrease)	(10,694,542)	(15,627,796)

- *Price risk*

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

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

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

	Impact on other comprehensive income	
	2017	**2016**
Index	**Shs**	**Shs**
NSE	4,432,121	3,671,545

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

(b) **Credit risk**

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

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

NOTES (CONTINUED)

21. **Risk management objectives and policies (continued)**

(b) **Credit risk (continued)**

i) Credit risk measurement

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed by obtaining guarantees from members and in part by obtaining collateral against loans and advances in the form of registered securities over assets. 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 society hierarchy.

The society' grading systems is based on the basic principles issued by the regulatory authority SASRA. In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis.

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

(1) **Performing loans**, being loans which are well documented and performing according to contractual terms;
(2) **Watch loans**, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding;
(3) **Substandard loans**, being loans not adequately protected by the current repayment capacity and/or the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding;
(4) **Doubtful loans,** being loans not adequately protected by the current repayment capacity and/or the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve instalments have remained outstanding; and
(5) **Loss loans,** being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding.

ii) Problem credit management and provisioning

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

A primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. An account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 31 days are considered delinquent. For delinquency reporting purposes, the society follows industry standards, measuring delinquency as of 31, 181 and above 361 days past due. Accounts that are overdue by up to 30 days are closely monitored and subject to specific collection processes.

NOTES (CONTINUED)

21. **Risk management objectives and policies (continued)**

b) **Credit risk (continued)**

ii) Problem credit management and provisioning (continued)

Specific impairment provisions reduce the aggregate carrying value of credit assets where there is specific evidence of deterioration in credit quality. In line with regulatory guidelines, a collective allowance is maintained as an appropriation from reserves, to cover potential impairment in the existing portfolio that cannot be associated with specific credit. These allowances are reviewed and updated on a regularly basis.

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

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

- **Loans and advances that are neither past due nor impaired**

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

- **Past due but not impaired**

  This category includes exposures that are between 1 – 30 days past due, where losses have been incurred but have not been identified. These exposures are graded as category 2 in line with internal guidelines and those issued by SASRA regulators. A collective impairment provision is made to cover losses which have been incurred but have not yet been identified and apportioned from appropriation reserves to loan loss reserve.

- **Impaired loans and advances**

  Impaired loans and advances are those which the society determines that it is probable that it will be unable to collect all principal and interest due according to the terms of the loan securities agreement(s). These loans are graded between categories contractual 3 (31-180 days), 4 (181-360 days) and 5 (over 360 days) using the society's internal credit rating system. These clients, under guidelines issued by the SASRA in the regions we operate in, are termed as non-performing loans. The society establishes a specific allowance for impairment losses that represents the estimate of losses that will be incurred in its loan portfolio. Such allowances are charged to profit and loss.

- **Collateral**

  The society holds collateral against all loans and advances to members in the form of member deposits guarantee and other member guarantees.

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

NOTES (CONTINUED)

21. **Risk management objectives and policies (continued)**

(b) **Credit risk (continued)**

ii) **Problem credit management and provisioning (continued)**

- **Concentration of risks of financial assets with credit risk exposure**

Year ended 31 December 2017

	SME and individuals Shs	Group Shs	Staff Shs	Total Shs
Neither past due nor impaired	1,762,234,275	1,229,163	19,289,751	1,782,753,189
Past due but not impaired	29,905,755	-	-	29,905,755
Gross	1,792,140,030	1,229,163	19,289,751	1,812,658,944
Less: provisions for impairment	(500,932)	-	-	(500,932)
Net	1,791,639,098	1,229,163	19,289,751	1,812,158,012
Year ended 31 December 2016				
Neither past due nor impaired	1,567,887,920	999,995	14,082,752	1,582,970,667
Past due but not impaired	15,850,698	-	-	15,850,698
Individually impaired	10,276,562	-	-	10,276,562
Gross	1,594,015,180	999,995	14,082,752	1,609,097,927
Less: provisions for impairment	(4,258,185)	-	-	(4,258,185)
Net	1,589,756,995	999,995	14,082,752	1,604,839,742

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the society based on the guidelines provided by the SASRA.

Loans and advances to customers

Year ended 31 December 2017	SME and Shs	Group Shs	Staff Shs	Total Shs
0 Days (Performing)	1,762,234,275	1,229,163	19,289,751	1,782,753,189
1- 30 Days (Watch)	20,198,800	-	-	20,198,800
31 - 180 Days (Substandard)	9,706,955	-	-	9,706,955
	1,792,140,030	1,229,163	19,289,751	1,812,658,944
Year ended 31 December 2016				
0 Days (Performing)	1,567,887,920	999,995	14,082,752	1,582,970,667
1- 30 Days (Watch)	10,276,562	-	-	10,276,562
31 - 180 Days (Substandard)	12,595,471	-	-	12,595,471
181- 360 Days (Doubtful)	1,263,378	-	-	1,263,378
Over 361 Days (Loss account)	1,991,849	-	-	1,991,849
	1,594,015,180	999,995	14,082,752	1,609,097,927

NOTES (CONTINUED)

21. **Risk management objectives and policies (continued)**

(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 borrowing facilities at all times so that the society does not breach borrowing limits on any of its borrowing facilities.

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

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

Year ended 31 December 2017	Current to 1 year Shs	1 to 5 years Shs	Total Shs
- Member deposits	223,125,857	1,514,105,745	1,737,231,602
- Other payables	21,868,955	-	21,868,955
- Interest due	168,057,087	-	168,057,087
	413,051,899	1,514,105,745	1,927,157,644
Year ended 31 December 2016			
- Member deposits	201,177,738	1,376,163,405	1,577,341,143
- Other payables	16,200,990	-	16,200,990
- Interest due	156,277,957	-	156,277,957
	373,656,685	1,376,163,405	1,749,820,090

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 sum of total borrowings and member's deposit (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising investment shares, reserves and appropriation account). The directors reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In order to maintain the capital structure, the society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The society's overall strategy remain unchanged from 2015

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

	2017 Shs	2016 Shs
Total members deposits (Note 14)	1,737,231,602	1,577,341,143
Total cash and bank balances (Note 6)	428,964,381	411,535,920
Net debt	1,308,267,221	1,165,805,223
Total equity	419,314,192	352,915,034
Gearing ratio	3.1:1	3.3:1

NOTES (CONTINUED)

22. **Capital management**

Externally imposed capital requirements

The Sacco Societies Act No. 14 of 2008 has established certain guidelines for the management of capital and working capital for deposit taking sacco's.

- core capital of not less than ten million shillings;
- core capital of not less than ten percent of total assets;
- institutional capital of not less than eight percent of total assets; and
- core capital of not less than eight percent of total deposits.
- maintain fifteen percent of its savings deposits and short term liabilities in liquid assets.

The ratios at 31 December 2017 and 2016 were as follows:

	2017 Shs	2016 Shs
a) **Core capital of not less that Shs 10 million**		
As per statement of financial position	419,314,192	352,915,034
b) **Core capital of not less than 10% of total assets;**		
As per statement of financial position	18%	17%
c) **Institutional capital of not less than 8% of total assets**		
As per statement of financial position	15%	14%
d) **Core capital of not less than 8% of total deposits.**		
As per statement of financial position	24%	22%

23. **Other administrative expenses**

	2017 Shs	2016 Shs
Printing and stationery	432,969	559,466
Security services	620,832	603,954
Telephone and postage	600,501	408,630
Auditor's remuneration	947,430	861,300
Other office expenses	363,646	257,249
Consultancy	-	391,210
Legal expenses	4,000	682,270
Bad debts written off	57,829	1,585,942
Strategic planning	148,810	2,111,221
Marketing and advertisement	1,287,917	527,275
Bulk SMS purchase spot cash	220,000	-
Case settlement	-	2,365,312
Bank charges	777,024	544,550
Motor vehicle expenses	117,260	51,320
Levy on member deposits	1,577,341	1,456,228
Total other administrative expenses	7,155,559	12,405,926

NOTES (CONTINUED)

24. **Other operating expenses**	**2017 Shs**	**2016 Shs**
Depreciation on property and equipment	1,712,297	1,302,786
Amortisation of intangible assets	1,719,002	2,343,588
Licence and subscriptions	139,680	260,156
Insurance	4,947,148	5,101,394
Repair and maintenance	1,100,892	905,890
ATM connectivity fee	111,360	111,360
Rent	192,734	-
Total other operating expenses	9,923,113	10,025,173

25. **Incorporation**

The society is incorporated in Kenya under the Co-operative Societies Act, Cap. 490 and is domiciled in Kenya. It was registered as a Sacco under the Sacco Societies Act with effect from 20 May 1981.

26. **Presentation currency**

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

Kenpipe Sacco Staff