

**CS/NO. 3468**

**KENPIPE DT SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2023**



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## SOCIETY INFORMATION

BOARD OF DIRECTORS	: Vitalis Opapo	- Chairman
	: Andrew Gisore	- Vice Chairman
	: Mercy Wesutula	- Hon. Secretary
	: Barton Kirui	- Treasurer
	: Albert Omare	- Director
	: Edwin Kinyua	- Director
	: Lucy Kariuki	- Director
	: Daniel Kimagut	- Director
	: Wycliff Mahinda	- Director
	: Mwasambu Mbango Charles	- Chief Executive Officer (Ex-Officio)
SUPERVISORY COMMITTEE	: George Metho	- Chairman
	: Maureen Kitoto	- Secretary
	: Simon Githithi	- Member
REGISTERED OFFICE	: Kenya Pipeline Company Limited	
	: Nairobi Terminal, Nanyuki Road, Off Sekondi Road	
	: P.O. Box 314, 00507	
	: Nairobi.	
INDEPENDENT AUDITOR	: Ronalds LLP	
	: Certified Public Accountants,	
	: 136 Manyani East Road Off Waiyaki Way,	
	: P.O. Box 41331-00100,	
	: Nairobi, Kenya.	
PRINCIPAL BANKERS	: Co-operative Bank of Kenya Limited,	
	: Industrial Area Branch,	
	: P.O Box 48231 - 00100,	
	: Nairobi, Kenya.	
	: Equity Bank Limited,	
	: Kenpipe Plaza,	
	: P.O. Box 75104-00200,	
	: Nairobi, Kenya.	
	: NCBA Bank,	
	: Industrial Area Branch,	
	: P.O Box 44599-00100,	
	: Nairobi, Kenya.	
	: Millimo, Muthomi and Company Advocates,	
LEGAL ADVISORS	: 4th Floor, Agip House,	
	: Haile Selassie Avenue,	
	: Nairobi, Kenya.	
	: Wekesa and Simiyu Advocates	
	: 8th Floor, Lenana Towers	
	: Lenana Road	
	: Nairobi, Kenya.	

## **Chairman's Statement**

The Guest of Honour Joe Sang - The Managing Director, Kenya Pipeline Company Limited, Invited Guests, Honorable Members, Delegates, Board Members, and the Sacco Management, I salute and welcome you all to the 44th Kenpipe DT Sacco Society Limited Annual Delegates Meeting. On behalf of the Sacco Board, I present the trading results for Kenpipe DT Sacco Society Limited for the year ended 31st December 2023.

## **Business**

Kenpipe DT Sacco Society Limited is managed by a board of directors comprising nine members, supervised by a Supervisory Committee comprising 3 members and 16 members of staff. During 2023, Kenpipe DT Sacco Society Limited continued to operate within our initial mandate of mobilizing savings and giving credit to the members alongside banking activities at FOSA. In terms of service delivery, we continued to deliver the services at BOSA and FOSA which are both fully automated. The Sacco is licensed and supervised by the Sacco Societies Regulatory Authority (SASRA). During the year, we filed our returns with the Authority every month which met all prudential standards.

During the year 2023, Kenpipe DT Sacco Society Limited experienced a unique loan default rate that had not been experienced before arising from members from KPC employment separating from the company for one reason or another but predominantly from those whose employment was terminated due to verification of academic papers. The majority of the members who found themselves separating from the company had loans way above their savings. This resulted in the loans being transferred to the guarantors. In some cases, the guarantors also separated from the company. The SACCO will keep on engaging the defaulters, focusing more on collateral as an alternative guarantee, and taking legal action where necessary to ensure maximum collections as well as protecting the guarantors. The defaults will result in increased loan loss provision resulting in reduced revenue.

To reduce the risks of defaults on loans that are purely guarantor-based, the Sacco considered and introduced a purely collateral-based loan called Platinum Loan which will require members to use collateral only for guaranteeing the loans. Further, the Sacco board caused Kenya Pipeline Company Retirement Benefits Scheme to request the Retirement Benefits Authority to allow Kenya Pipeline Company Retirement Benefits Scheme to recognize Kenpipe DT Sacco Society Limited as a Pension Pay Point i.e., equivalent to a bank. The request was granted. The Kenya Pipeline Company Retirement Benefits Scheme is now able to channel retirees' dues through FOSA. This has been achieved through collaboration with NCBA bank and will allow pensioners to access all the services offered by the Sacco both at FOSA and BOSA.

## **Business Continuity**

During the year Kenpipe DT Sacco Society Limited took a bold step to set up a disaster recovery site outside the confines of the KPC premises. This means in the event of the Sacco Primary site (Data Centre) unavailability, the Sacco operations will continue seamlessly. To guard against any attempts to hack our systems (cyber threats), the Sacco deployed a Security Information and Event Management (SIEM) tool and Network Access Control (NAC) which forms a formidable digital fortress. The SIEM tool acts as a vigilant overseer, collecting and analyzing data to detect and respond to security incidents promptly. Complementing the SIEM, the NAC stands as the digital gatekeeper, scrutinizing and regulating access to the Sacco's network. With this development, I assure our members that their savings are secure from outside threats.

During the year, as part of our mandate, the Board and Management reviewed the existing Sacco policies to bring them in line with the current business practices and strategic direction.



## **Chairman's Statement (Continued)**

### **Special Delegates Meeting**

The Sacco held a Special Delegates Meeting alongside Delegates Education between 21/6/2023 and 23/6/2023. During the Special Delegates Meeting, some resolutions were made which I would like to bring to your attention and which will lead to prudent management of the members' funds. The delegates resolved to cap the honoraria paid to board and supervisory members at KES 3 million. The delegates resolved that Kenpipe DT Sacco Society Limited source for offices to rent outside KPC to mitigate any risks associated with office space. The Management of Kenpipe DT Sacco Society Limited has identified some office space at Lunga Lunga Square where the offices will be relocated to soon. A review of the by-laws was among the other resolutions. The reviewed clauses affect more on the leadership of the Sacco whereby both aspiring and sitting delegates and board members will have to meet enhanced requirements among other changes.

### **Staff**

Kenpipe DT Sacco Society Limited maintained the same 16 staff during the year. The board continued with the harmonization of the staff remuneration as per the consultant report by implementing the 2nd phase of the recommendations which has brought the Sacco to the industry standard. Due to the need for efficient and effective service delivery to sustain the Sacco business, the staff underwent customer service training which has improved their performance. With this, we are optimistic that Kenpipe DT Sacco Society Limited staff are motivated enough to take on their mandate of moving the Sacco forward by providing excellent services.

### **Awards**

In terms of management and performance, Kenpipe DT Sacco Society Limited stands tall among its peers. This was recognized during the 101 International Co-operative Alliance (Ushirika Day) celebrations in July 2023. During the awards ceremony, we received the following trophies;

1. 1st Position Best Managed Deposit Taking Sacco.
2. 1st Position Best Deposit Taking Sacco in Technology Optimization.
3. 1st Position Best Deposit Taking Sacco in Deposit Management.
4. 1st Position Best Deposit Taking Sacco in Share Capital Mobilization.
5. 3rd Position Best Deposit Taking Sacco in Credit Management.

I congratulate the board, management, staff, and members for the outstanding performance. I am optimistic that this year we will achieve even more trophies.

### **Performance**

The year 2023 saw the enactment of the Finance Act 2023 which has affected every one of our members. The Act which came into effect in July 2023 led to an increase and introduction of new statutory deductions. This resulted in loan defaults/underpayments, a reduction in deposit contributions, a reduction in savings, and a reduction in share capital contributions. Despite the challenge, the Sacco board and management ensured that the performance was as per both Strategic Plan 2022 – 2026 and growth projections for the year. We are proud to announce that;

Kenpipe Sacco's Total Assets grew from KES 4,176,041,909 in the year 2022 to KES 4,737,242,089 an increase of KES 561,200,180 in the year 2023 representing a growth of 13.44%.

### **Chairman's statement (Continued)**

Total loans grew from KES 3,362,506,934 in the year 2022 to KES 3,864,608,289 an increase of KES 502,101,355 in the year 2023 representing a growth of 14.93%.

Member Deposits grew from KES 2,887,224,087 in the year 2022 to KES 3,246,601,046 an increase of KES 359,376,959 in the year 2023 representing a growth of 12.45%.

Despite the hard times experienced during the 2nd half of 2023, Kenpipe Sacco's income grew by 17.18% from KES 555,239,540 in 2022 to KES 650,648,687 an increase of KES 95,409,147 in 2023..

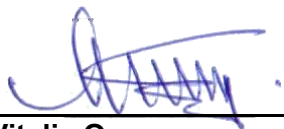
Kenpipe Membership grew from 4,284 in the year 2022 to 4,546 in the year 2023.

The Kenpipe DT Sacco Society Limited board proposes to pay dividends on share capital at the rate of 17%, interest on non-withdrawable deposits at the rate of 11.5%, and interest on KESASA Savings at 7% for the year 2023.

### **Conclusion**

I would like to express my sincere gratitude to our esteemed members for their continued support and patronage of the Sacco. I wish to thank my fellow directors for their commitment and insights, and our staff for their hard work and dedication to the SACCO, while recognizing with appreciation the facilitation by Kenya Pipeline Company Management. Finally, I would like to thank the State Department for Co-operatives, KUSCCO, SASRA, and all our stakeholders for their support during the year.

Thank you and may God bless you.

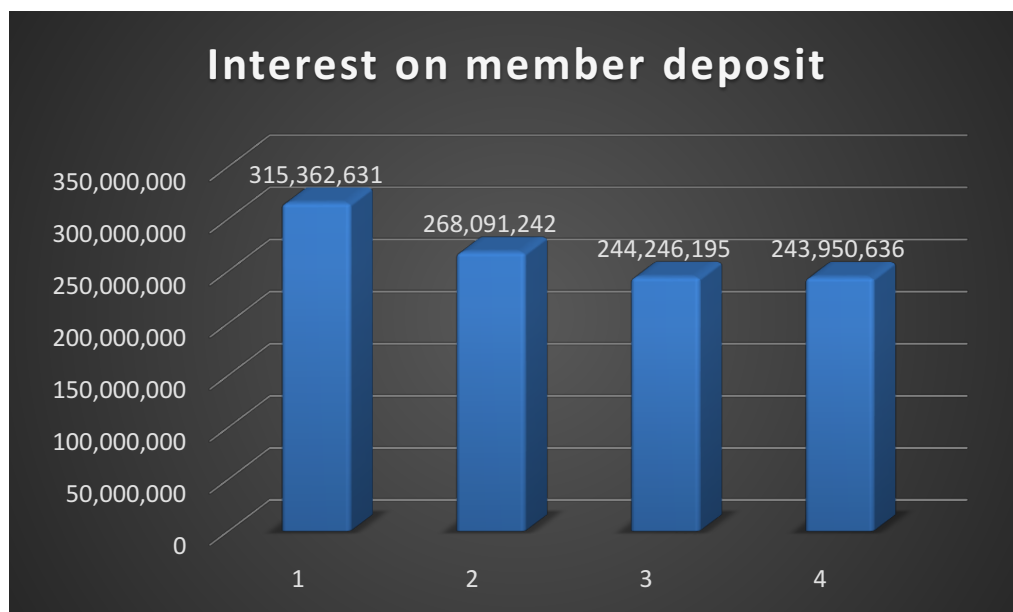


**Vitalis Opapo**  
**Chairman**

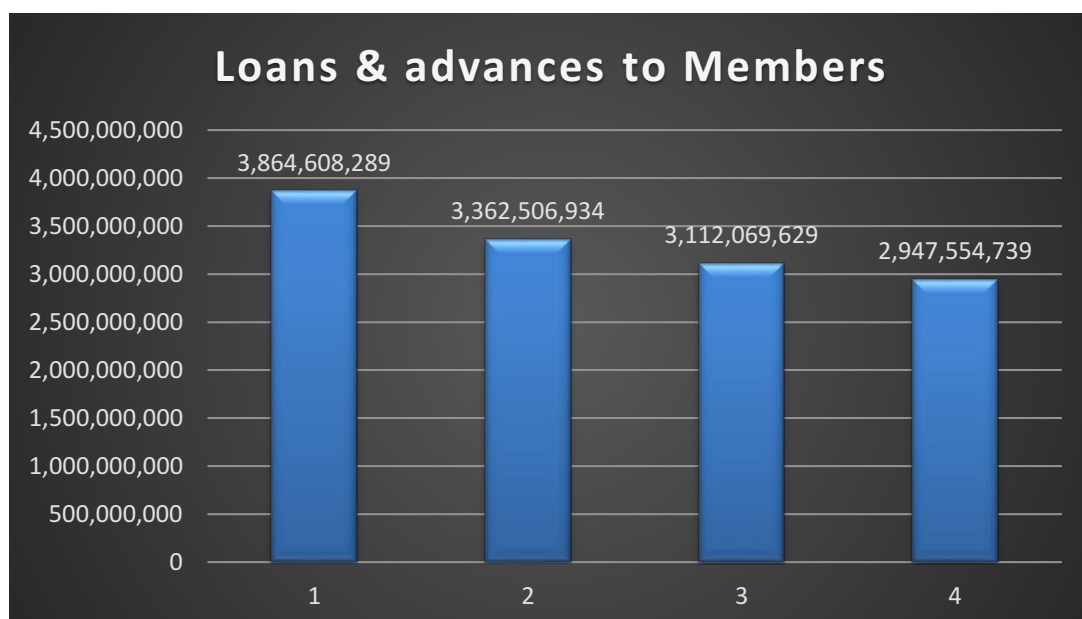
Date 9<sup>th</sup> February 2024

## COMPARATIVE PERFORMANCE HIGHLIGHTS

	YEARS			
	2023	2022	2021	2020
	Shs	Shs	Shs	Shs
Interest on member deposit	315,362,631	268,091,242	244,246,195	243,950,636



	YEARS			
	2023	2022	2021	2020
	Shs	Shs	Shs	Shs
Loans & advances to Members	3,864,608,289	3,362,506,934	3,112,069,629	2,947,554,739



## REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2023 which disclose the state of affairs of the Society.

### Principal activity

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

	2023 Shs	2022 Shs
<b>Results</b>		
Profit before tax	173,792,421	137,637,467
Income tax expense	-	-
Profit for the year	<u>173,792,421</u>	<u>137,637,467</u>
Interest on members' deposits	<u>315,362,631</u>	<u>268,091,242</u>
Dividends on Share Capital	<u>29,967,956</u>	<u>27,224,499</u>

### Share Capital

The issued and paid up share capital of the society increased during the year from Shs. 160,144,107 to Shs. 185,560,102.

### Payment of Interest Rebate and Dividends

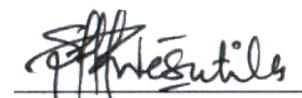
The Board is proposing to pay interest on deposits at 11.5% (2022: 11%) and dividend on share capital at 17% (2022:17%). In monetary terms the Board has proposed to pay interest on deposits amounting to ksh 315,362,631 (2022: ksh 281,187,641) and dividend on share capital of ksh 29,967,956 (2022:ksh 27,224,499).

### Board of directors

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

### Independent auditor

The Society's auditor, Ronalds LLP, Certified Public Accountants (K) who were appointed during the year has indicated willingness to continue in office in accordance with Section 25(4) of the Kenyan Co-operative Societies Act 1997 (Amended 2004).



Mercy Wesutula  
**Hon Secretary**

Date 9<sup>th</sup> February 2024

## 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 2023:

	No. of meetings	Membership	Average attendance %
Full board	12	9	95.0
Finance, Administration and HR Committee	12	3	97.0
Credit Committee	12	3	94.0
Audit and Risk Management Committee	12	3	92.0

### 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: Barton Kirui
2. Credit Committee	Chaired by: Andrew Gisore
3. Audit and Risk Management Committee	Chaired by: Albert Omare

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



## FINANCIAL AND STATISTICAL INFORMATION

		As at 31 December	
		2023	2022
		Numbers	Numbers
<b>Membership</b>	Active	2,746	2,348
	Dormant	1,804	1,936
		<u>4,550</u>	<u>4,284</u>
<b>Number of employees</b>			
Male		8	9
Female		8	8
		<u>16</u>	<u>17</u>
		2023	2022
		Shs	Shs
<b>Financial</b>			
Total assets		4,739,571,842	4,176,041,909
Members' deposits		3,246,601,046	2,887,224,087
Loans and advance to members		3,864,608,289	3,362,506,934
Provision for loan losses		55,702,046	39,228,904
Investments		77,906,004	82,926,257
Total revenue		650,648,687	555,239,540
Total interest income		609,580,422	527,542,307
Total expenses		476,856,266	417,602,073
Share capital		185,560,102	160,144,107
Statutory reserve		215,522,955	181,617,914
Retained Earning		594,455,496	495,817,783
Core capital		995,538,553	837,579,804
Institutional capital		809,978,451	677,435,697
Credit Risk reserve		70,772,542	59,490,831
<b>Key ratios:</b>			
		Minimum Ratios	
		2023	2022
		%	%
<b>Capital adequacy ratios</b>			
Core capital/Total assets		10%	21.0%
Core capital/Total deposits		8%	30.7%
Institutional capital/Total assets		8%	17.1%
<b>Liquidity ratio</b>			
Liquid assets/Total deposits and short-term liabilities		15%	22.9%
<b>Operating efficiency/loan quality ratios</b>			
Total expenses/Total revenue		73.3%	75.2%
Interest on members deposits/Total revenue		50.6%	50.6%
Interest rate on members' savings		11.5%	11.0%
Dividend rate on members share capital		17.0%	17.0%
Total delinquent loans/Gross loan portfolio		3.7%	2.8%

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Sacco's Act, No 14 of 2008 requires the Board of Directors to prepare financial statements for each financial year that 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 operating results for the year in accordance with IFRS. It also requires the members to ensure that the Society maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Society. The Board of Directors are also responsible for safeguarding the assets of the Society and ensuring that the business of the Society has been conducted in accordance with its objectives, by-laws and any other resolutions made at the Society's general meeting.

The Board of Directors accept responsibility for the preparation and fair presentation of financial statements, which are supported by reasonable and prudent judgments and estimates, in conformity with IFRS and in the manner required by the Sacco Societies Act No. 14 of 2008. They also accept responsibility for:-

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgments that are reasonable in the circumstances.

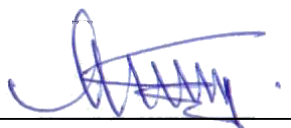
The Board of Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Society as at 31 December 2023 and of its profit/loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards 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 as detailed in Note 1 to the financial statements. Nothing has come to the attention of the directors to indicate that the society will not remain a going concern for at least the next twelve months from the date of this statement.

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

So far as each of the director is aware, there is no relevant audit information which the auditor is unaware of and each of the director 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.

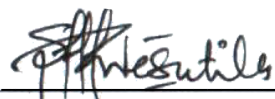
Approved by the board of directors on 9th February 2024 and signed on its behalf by:



Vitalis Opapo  
**Chairman**



Barton Kirui  
**Treasurer**



Mercy Wesutilla  
**Director**

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

### **Report on the financial statements**

#### **Opinion**

We have audited the accompanying financial statements of Kenpipe DT Savings and Credit Co-operative Society Limited set out on pages 9 to 50 which comprise the statement of financial position as at 31 December 2023 and the Statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. In our opinion, the financial statements give a true and fair view of the state of the society's financial affairs at 31 December 2023, the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Sacco Societies Act.

#### **Basis for Opinion**

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

#### **Key audit matters**

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

#### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the budget and the chairman's report included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Board of Directors' Responsibility for the Financial Statements.**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Sacco's Act. This responsibility includes designing, implementing and maintaining internal control making accounting estimates that are reasonable in the circumstances.

The Kenya Co-operatives Societies Act also requires the Board of Directors to ensure that the society maintains proper books of accounts which are in agreement with the statement of comprehensive income and statement of financial position.

#### **Auditors' Responsibility for the audit of the financial statements**

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

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a controls.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal controls.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Conclude on the appropriateness of the Board of Directors use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sacco'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 as a going concern.

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

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

#### **Report on other legal requirements**

As required by the Sacco's Act we report to you that the financial statements are in agreement with the books of account kept by the Society and that, based on our audit, nothing has come to our attention that causes us to believe that the Society's business has not been conducted:

- (i) In accordance with the provisions of the Kenyan Co-operative Society's Act.
- (ii) In accordance with the Co-operatives Societies objectives, by-laws and any other resolutions made by the Society at a general meeting.

The engagement partner responsible for the audit resulting in this independent auditor's opinion is CPA Ronald N. Bwosi, Practicing Certificate No 1865.

**For and on behalf of Ronalds LLP.....**  
**Certified Public Accountants (K) Nairobi, Kenya**

## STATEMENT OF COMPREHENSIVE INCOME

Revenue	Notes	2023 Shs	2022 Shs
Interest income:			
- Interest on loans and advances	2 (a)	564,534,654	497,444,556
- Other interest income	2 (b)	<u>45,045,768</u>	<u>30,097,751</u>
<b>Total interest income</b>		609,580,422	527,542,307
Interest expense	2 (c)	<u>(329,170,267)</u>	<u>(281,187,641)</u>
<b>Net interest income</b>		280,410,155	246,354,666
Other operating income	2 (e)	41,068,265	27,697,233
<b>Total operating income</b>		<u>321,478,420</u>	<u>274,051,899</u>
Impairment charge on loans and advances	8	(17,469,968)	(16,203,376)
Governance expenses	3 (c)	(32,240,616)	(29,226,701)
Personnel expenses	4	(56,175,250)	(51,881,663)
Other administrative expenses	23	(13,320,862)	(13,371,939)
Other operating expenses	24	(28,479,303)	(25,730,753)
<b>Profit before tax</b>	3	<u>173,792,421</u>	<u>137,637,467</u>
Income tax expense	5	-	-
<b>Net profit for the year</b>		<u>173,792,421</u>	<u>137,637,467</u>
Other comprehensive income:			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
- Fair value (loss) / gain on available for sale financial assets	9	(5,020,253)	(2,231,224)
- Deferred tax credit / (charge) thereon	16	753,038	111,561
<b>Net surplus for the year</b>		<u>169,525,206</u>	<u>135,517,804</u>
20% transfer to statutory reserve		33,905,041	27,103,561
<b>Surplus for the year available for distribution</b>		<u>135,620,165</u>	<u>108,414,243</u>

The notes on pages 17 to 50 form an integral part of these financial statements.  
 Report of the independent auditor - pages 10 to 12.





## STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2023 Shs	2022 Shs
<b>ASSETS</b>			
Cash and bank balances	6	743,506,956	686,814,280
Receivables and prepayments	7	27,732,214	18,664,151
Loans and advances to members	8	3,864,608,289	3,362,506,934
Other financial assets	9	77,906,004	82,926,257
Tax recoverable	15	12,441,472	12,441,472
Property and equipment	10	6,839,953	7,903,705
Intangible assets	11	6,536,954	4,785,110
Total assets		<u>4,739,571,842</u>	<u>4,176,041,909</u>
<b>LIABILITIES</b>			
Payables	12	27,921,271	36,536,316
Interest due to members	13	323,761,815	277,957,460
Member deposits	14	3,246,601,046	2,887,224,087
Deferred tax	16	1,748,408	2,501,446
		<u>3,600,032,540</u>	<u>3,204,219,309</u>
<b>FINANCED BY</b>			
Share capital	17	185,560,102	160,144,107
Statutory reserve	18 (i)	215,522,955	181,617,914
Credit risk reserve	18 (ii)	70,772,542	59,490,831
Fair value reserve	18 (iii)	43,260,251	47,527,466
Retained earnings	18 (iv)	594,455,496	495,817,783
Proposed dividend	18 (v)	29,967,956	27,224,499
		<u>1,139,539,302</u>	<u>971,822,600</u>
<b>Total liabilities and capital</b>		<u>4,739,571,842</u>	<u>4,176,041,909</u>

The financial statements on pages 14 to 51 were approved and authorised for issue by the board of directors on \_\_\_\_\_ 2024 and were signed on its behalf by:

  
Vitalis Opapo  
Chairman

  
Barton Kirui  
Treasurer

  
Mercy Wesutula  
Director



The notes on pages 17 to 50 form an integral part of these financial statements.  
Report of the independent auditor - pages 10 to 12.

# STATEMENT OF CHANGES IN EQUITY

## Year ended 31 December 2022

	Share capital	Retained Earning	Statutory reserve	Credit Risk reserve	Fair value reserve	Proposed dividend	Total
At start of the year - as previously stated	123,348,898	418,227,709	154,514,353	53,771,498	49,647,129	19,735,823	819,245,410
- Adjusment	-	-	-	-	-	-	-
At start of the year - as restated	123,348,898	418,227,709	154,514,353	53,771,498	49,647,129	19,735,823	819,245,410
Net profit for the year	-	137,637,467	-	-	(2,119,663)	-	135,517,804
T transfer to statutory reserve	-	(27,103,561)	27,103,561	-	-	-	-
T transfer to loan loss reserve	-	(5,719,333)	-	5,719,333	-	-	-
<b>Transactions with owners:</b>							
Issue of investment shares	36,795,209	-	-	-	-	-	36,795,209
Dividends:							
- Paid 2022	-	-	-	-	-	(19,735,823)	(19,735,823)
- Proposed 2022	-	(27,224,499)	-	-	-	27,224,499	-
<b>At end of year</b>	<b>160,144,107</b>	<b>495,817,783</b>	<b>181,617,914</b>	<b>59,490,831</b>	<b>47,527,466</b>	<b>27,224,499</b>	<b>971,822,600</b>

## Year ended 31 December 2023

At start of the year - as previously stated	160,144,107	495,817,783	181,617,914	59,490,831	47,527,466	27,224,499	971,822,600
- Adjusment	-	-	-	-	-	-	-
At start of the year	160,144,107	495,817,783	181,617,914	59,490,831	47,527,466	27,224,499	971,822,600
Net profit for the year	-	173,792,421	-	-	(4,267,215)	-	169,525,206
T transfer to statutory reserve	-	(33,905,041)	33,905,041	-	-	-	-
T transfer to loan loss reserve	-	(11,281,711)	-	11,281,711	-	-	-
<b>Transactions with owners:</b>							
Issue of investment shares	25,415,995	-	-	-	-	-	25,415,995
Dividends:							
- Paid 2023	-	-	-	-	-	(27,224,499)	(27,224,499)
- Proposed 2023	-	(29,967,956)	-	-	-	29,967,956	-
<b>At end of year</b>	<b>185,560,102</b>	<b>594,455,496</b>	<b>215,522,955</b>	<b>70,772,542</b>	<b>43,260,251</b>	<b>29,967,956</b>	<b>1,139,539,302</b>

The notes on pages 17 to 50 form an integral part of these financial statements.

Report of the independent auditor - pages 10 to 12.

## STATEMENT OF CASH FLOWS

	Notes	2023 Shs	2022 Shs
<b>Cash from operating activities</b>			
Interest income on member loans	2(a)	564,534,654	497,444,556
Less: Loan interest received and accounted for from previous year	7.	-	-
		<u>564,534,654</u>	<u>497,444,556</u>
Other interest income	2(b)	45,045,768	30,097,751
Other operating income	2(e)	20,567,476	12,717,262
Payment to employees and suppliers		(107,250,055)	(80,653,898)
Interest paid to members	13(a)(b)	(277,957,460)	(254,035,282)
		<u>244,940,383</u>	<u>205,570,389</u>
<b>Decreased in operating assets</b>			
Net loans and advances to members	8	(557,803,401)	(289,666,209)
<b>Increase in operating liabilities</b>			
Deposits from members	14	359,376,959	314,640,480
Income tax paid	15	-	(5,551,609)
<b>Net cash generated from operating activities</b>		<u>46,513,940</u>	<u>224,993,051</u>
<b>Investing activities</b>			
Cash paid for purchase of investment	9	-	-
Cash paid for purchase of property and equipment	10	(346,260)	(671,587)
Cash paid for purchase of intangible assets	11	(2,413,441)	(1,422,624)
Dividends received	2(e)	14,746,941	9,808,738
<b>Net cash flow generated from investing activities</b>		<u>11,987,240</u>	<u>7,714,527</u>
<b>Financing activities</b>			
Proceeds from issue of shares	17	25,415,995	36,795,209
Dividend paid	2(d)	(27,224,499)	(19,735,823)
<b>Net cash flow generated (used in)/from financing activities</b>		<u>(1,808,504)</u>	<u>17,059,386</u>
Increase in cash and cash equivalents		56,692,676	249,766,964
Cash and cash equivalents at start of year		686,814,280	437,047,316
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<u><b>743,506,956</b></u>	<u><b>686,814,280</b></u>

The notes on pages 17 to 50 form an integral part of these financial statements.  
Report of the independent auditor - pages 10 to 12.

## 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 society 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 report of the directors 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 and capital management disclosures are set out on Note 22.

Based on the financial performance and position of the society and its risk management policies and the disclosures set out in Note 21 with regard to minimum capital requirements, 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

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2020 have been adopted by the society. Of those, the following has had an effect on the society's financial statements:

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

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

## NOTES (CONTINUED)

As permitted by the transitional provisions of IFRS 9, the society elected not to restate comparative figures. Therefore the adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings.

### 1. Significant accounting policies (continued)

#### a) Basis of preparation (continued)

##### New and amended standards adopted by the society (continued)

##### International Financial Reporting Standards 9 (IFRS 9): Financial Instruments (continued)

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

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the society. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1 (g) and note 21.

##### (i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 at 1 January 2023 are compared as follows:

	IFRS 9 Measurement category	Carrying amount 31 December 2022 Shs	IFRS 9 Measurement category	Carrying amount 1 January 2023 Shs
<b>Financial assets</b>				
Loans and advances	Loans and advances	<u>3,084,241,436</u>	Amortised cost	<u>3,323,278,030</u>

There was no significant impact on the carrying amounts between IAS 39 and IFRS 9 on other financial instruments i.e cash and cash equivalents and investments.

##### (ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The society performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to note 1 (g).



## **NOTES (CONTINUED)**

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

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

##### **New and amended standards adopted by the society (continued)**

##### **International Financial Reporting Standards 9 (IFRS 9): Financial Instruments (continued)**

##### **(iii) Significant and material impacts**

- Total provision for impairment of loans and advances increased by Shs 16,473,142 from Shs 39,228,904 as at 31 December 2022 to Shs 55,702,046 as at 31 December 2023.

##### **New standards, amendments and interpretations issued.**

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

- Amendments to IFRS 3: Definition of a Business effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8: Definition of Material beginning on or after 1 January 2020.
- The Conceptual Framework Financial Reporting beginning on or after 1 January 2020.
- IFRS 17 Insurance contracts beginning on or after 1 January 2022.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its associate or indefinitely Joint Venture - Effective date deferred indefinitely.
- Except for Amendments to IFRS 3: Definition of a Business and Amendment to IAS 1 and IAS 8: Definition of Material, which have been discussed below, the above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the society.

##### **- Amendments to IFRS 3: Definition of Business**

In October 2018, the IASB issued amendments to the definition of a business. In IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, the amendments apply prospective to transactions or other events that occur on or after the date of first application, the Society will not be affected by these amendments on the date of transition.

##### **- Amendments to IAS 1 and IAS 8: Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments to the definition of material is not expected to have a significant impact on the society's financial statements.

## **NOTES (CONTINUED)**

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

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

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

#### **b) Critical accounting estimates and judgements**

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

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

##### **- Measurement of expected credit losses (ECL):**

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

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

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

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

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

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

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

## NOTES (CONTINUED)

When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

### 1. Significant accounting policies (continued)

#### c) Key sources of estimation uncertainty

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

**Assessment of significant increase in credit risk:** The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The society uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

##### - Fair value of financial instruments

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

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

##### - Useful lives of property and equipment and intangible assets

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

#### d) Revenue recognition

##### Interest income

Interest income is recognised under the effective interest method. The effective interest 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 custody fees are generally recognised on an accrual basis when the service has been provided.

## **NOTES (CONTINUED)**

### **Other income**

- i) Dividend is recognised when the right to receive income is established. Dividend are reflected as a component of other operating income based on the underlying classification of the equity instrument.

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

### **e) Property and equipment**

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

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

Depreciation on all other assets is calculated on the reducing balance basis method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	<b><u>Rate %</u></b>
Furniture and fittings	10.0
Computer and accessories	33.3
Motor vehicle	25.0
Office equipments	10.0
Leasehold improvements	10.0

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining profit before tax.

### **f) Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a reducing balance basis at the rate of 10% per annum. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

### **Computer software**

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 10 years.

### **g) 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.

## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

##### - Financial assets

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

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

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

**Fair Value Through Other Comprehensive Income (FVTOCI):** Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are measured at FVTOCI. Movements in the

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

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

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

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

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



## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

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

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

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

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

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

#### Impairment

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

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

No impairment loss is recognised on investments measured at FVTPL.

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

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

## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

##### Impairment (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 21.

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

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

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

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

More information on measurement of ECLs is provided in note 21 (b), including details on how instruments are grouped when they are assessed on a collective basis.

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

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

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

## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

##### Modification and derecognition of financial assets

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

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

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

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

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

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated - credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Society monitors credit risk of modified

financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

## NOTES (CONTINUED)

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

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

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

##### Modification and derecognition of financial assets (continued)

For financial assets modified as part of the Society's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Society's ability to collect the modified cash flows taking into account the Society's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forbore loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

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

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

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

On derecognition of a financial asset other than in its entirety (e.g., when the Society retains an option to repurchase part of a transferred asset), the Society allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

## NOTES (CONTINUED)

### Write-off

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

## 1. Significant accounting policies (continued)

### g) Financial instruments (continued)

#### Write-off (continued)

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

Management classifies financial assets as follows:

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

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

#### Financial liabilities

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

**Financial liabilities measured at amortised cost:** These include other payables, interest due, members deposits and other creditors and accruals. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised 'as interest expense in profit or loss under finance costs under the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

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

All financial liabilities are classified as current liabilities unless the Society has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the Society's obligations are discharged, cancelled or expired.

## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### g) Financial instruments (continued)

##### 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.

#### h) 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.

#### i) 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.

#### j) 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.

##### - 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.

##### - 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.



## **NOTES (CONTINUED)**

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

#### **k) Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

#### **l) Dividends**

Proposed dividends are disclosed as a separate component of equity until approved by annual delegates meeting.

Dividends are recognised as a liabilities in the period in which they are approved by the Society's shareholders.

#### **m) Investment shares**

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

Provisions in the Act, regulations or the Sacco by-laws impose unconditional prohibitions on the redemption of members' shares.

#### **n) 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 income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability. Currently enacted tax rates are used to determine deferred income tax.

#### **o) Retirement benefit obligations**

Employee entitlements to gratuity are recognised when they accrue to employees. A gratuity payment of 6% of the basic annual salary is accrued to employees at the end of each successfully completed year period of service.

The Society and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Society's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

#### **p) Comparatives**

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



## NOTES (CONTINUED)

2. Revenue	2023 Shs	2022 Shs
<b>a) Interest income</b>		
Interest on loans and advances to members	564,534,654	497,444,556
<b>b) Other interest income</b>		
Interest on fixed deposits	45,045,768	30,097,751
Total interest income	609,580,422	527,542,307
<b>c) Interest expenses</b>		
Interest on member deposits - BOSA	315,362,631	268,091,242
Interest on FOSA deposits	13,807,636	13,096,399
<b>Total interest expense</b>	329,170,267	281,187,641
<b>d) Dividend paid</b>		
Dividend paid during the year	27,224,499	19,735,823
<b>e) Other operating income</b>		
<b>Items that involve cash movement</b>		
Entrance fees	532,800	450,500
Frequency withdrawal fees	914,250	930,150
Cash withdrawal fees	134,004	137,124
SMS alert fees	670,320	646,880
Penalties and fines	637,438	492,354
Commission earned on loan products	17,678,664	10,060,254
	20,567,476	12,717,262
<b>Items that do not involve cash movement</b>		
Loan appraisal fees	5,301,500	4,840,000
Other fees	19,800	31,600
Commission earned on loan products	304,100	259,450
Miscellaneous income	128,448	40,183
	5,753,848	5,171,233
Dividend income	14,746,941	9,808,738
<b>Total fee and commission income</b>	41,068,265	27,697,233
<b>3. Profit before tax</b>		
The following items have been charged in arriving at profit before tax:		
<b>a) Administration and other operating expenses</b>	<b>2023 Shs</b>	<b>2022 Shs</b>
Auditors' remuneration	464,000	920,741
Staff costs (Note 4)	56,175,250	51,881,663
Depreciation on property and equipment (Note 10)	1,410,012	1,638,105
Amortisation of intangible assets (Note 11)	661,597	386,782
Marketing and advertisement	533,392	265,331
<b>b) Impairment provision</b>		
Provision for loan Loss	17,469,968	16,203,376
	17,469,968	16,203,376

## NOTES (CONTINUED)

3. Profit before tax (continued)		2023 Shs	2022 Shs
c) Governance expenses			
Annual delegates meeting		6,515,002	6,413,597
Education board members		3,947,856	2,564,952
Delegates training		6,505,502	4,863,931
Board sitting allowances		4,176,615	2,612,913
Member education		1,957,818	-
Board travelling/subsistence/retreat		5,569,296	4,113,243
Honorarium provision		3,000,000	8,280,160
Ushirika day celebrations		568,527	377,905
		<u>32,240,616</u>	<u>29,226,701</u>
4. Personnel expenses			
Salaries and wages		45,743,742	43,023,417
Other staff cost		7,431,255	6,101,832
Pension costs:			
- defined contribution scheme		2,806,773	2,714,014
- National Social Security Fund		193,480	42,400
Total personnel expenses		<u>56,175,250</u>	<u>51,881,663</u>
5. Tax			
Current tax		-	-
The tax on the Society's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:			
Profit before tax		173,792,421	137,637,467
Tax calculated at a tax rate of 30% (2022: 30%)		52,137,726	41,291,240
Tax effects of:			
- expenses not deductible for tax purposes		132,844,837	117,676,843
- income not subject to tax		(184,982,564)	(158,968,083)
Tax charge		<u>-0</u>	<u>-0</u>
6. Cash and bank balances	Note		
Cash at bank and in hand	6 (i)	230,112,230	249,176,843
Short term bank deposits	6 (ii)	526,253,239	449,515,187
		<u>756,365,469</u>	<u>698,692,030</u>
Impairment allowance		(12,858,513)	(11,877,750)
		<u>743,506,956</u>	<u>686,814,280</u>

The weighted average effective interest rate on short-term bank deposits at year-end was 11% (2022: 9%).

The Society's cash and bank balances are held with a major Kenyan financial institution and, in so far as the directors are able to measure any credit risk to these assets, it is deemed to be in respect to the above balances.

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).

## NOTES (CONTINUED)

<b>6. Cash and bank balances</b>	<b>2023 Ksh</b>	<b>2022 Ksh</b>
<b>(i) <u>Cash at bank and in hand</u></b>		
Cash in hand	1,534,325	1,096,445
	<b>1,534,325</b>	<b>1,096,445</b>
<b>Cash at Bank</b>		
<b><u>Current Accounts</u></b>		
Co-operative bank	80,431,185	82,440,345
Equity bank (Bosa)	8,750,410	23,944,569
SBM bank	273,565	273,565
NCBA bank	67,282,976	71,470,444
Equity bank (Fosa)	19,803,039	41,424,359
Co-operative bank ATM settlement account	9,916,021	12,210,764
	<b>186,457,196</b>	<b>231,764,045</b>
<b><u>Savings Account</u></b>		
Co-operative bank Instant	515,554	785,351
Kuscco Jungu Kuu savings	698,113	695,501
	<b>1,213,667</b>	<b>1,480,852</b>
<b><u>Mobile Banking</u></b>		
MSacco deposit (Mobile banking)	3,721,586	592,020
Sky World (Mobile banking)	17,185,457	14,243,481
	<b>20,907,043</b>	<b>14,835,501</b>
<b>Total cash at bank and cash in hand</b>	<b>210,112,230</b>	<b>249,176,842</b>
<b>(ii) <u>Short term bank deposits</u></b>		
Kuscco	149,180,285	94,000,000
Ncba bank	231,000,000	107,034,411
Equity bank	146,072,954	228,480,776
Call deposit (Ncba bank)	20,000,000	20,000,000
<b>Total short term bank deposits</b>	<b>546,253,239</b>	<b>449,515,187</b>

The Expected Credit Loss on the bank balance has been derived by using a rating agency. Two of the banks used by the sacco, namely Co-operative Bank of Kenya and Equity Bank are rated by Moody's. Under the assumption that the sacco's other bank, NCBA Bank would have similar or comparable ratings if it were rated, the 1.7% default rate has been applied to the entire category as the cash element is trifling.

## NOTES (CONTINUED)

### 7. Receivables and prepayments

	2023 Shs	2022 Shs
<b>Deposits and prepayments</b>		
Prepaid staff medical insurance	3,712,268	3,126,534
Debtors - Deposit with Metropol	3,800	3,800
Prepaid insurance	1,918,525	1,918,535
Prepayment -purchase of co-op shares	11,875,000	-
<b>Total deposits &amp; prepayments</b>	<b>17,509,593</b>	<b>5,048,869</b>
 Loan interest receivable	 5,493,549	 3,789,413
Insurance claims receivable	4,766,094	9,846,828
	10,259,643	13,636,241
 Impairment allowance	 (37,022)	 (20,959)
	10,222,621	13,615,282
	<b>27,732,214</b>	<b>18,664,151</b>

Loan interest receivable comprise outstanding interest on member loans and advances and therefore have the same credit risk characteristics as loan and advance balances hence allowance for impairment losses has been provided for as per IFRS9.

### 8. Loans and advances

At start of year	3,362,506,934	3,112,069,629
Disbursed during the year	3,863,968,026	2,916,950,607
Loan repayment during the year	(3,306,164,625)	(2,627,284,398)
	3,920,310,335	3,401,735,838
Provision for impairment of loans	(55,702,046)	(39,228,904)
At year end	<b>3,864,608,289</b>	<b>3,362,506,934</b>

#### Movement in provisions for impairment of loans

At start of year	39,228,904	27,828,193
Prior year adjustments:		
- IFRS 9 transition adjustment	-	-
At start of year - as restated	39,228,904	27,828,193
Expected credit loss provision	16,473,142	11,400,711
At end of year	<b>55,702,046</b>	<b>39,228,904</b>

### NET INCREASE IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

Increase in allowance for expected credit losses on loans and advances	16,473,142	11,400,711
Increase in allowance for expected credit losses on cash and bank	980,763	4,793,614
Increase in allowance for expected credit losses on other receivables	16,063	9,051
	<b>17,469,968</b>	<b>16,203,376</b>

#### (i) Loans and advances to customers at amortised cost

	2023	
	Gross amount Shs	ECL allowance Shs
Taratibu, normal, makao, super loan and staff car loans	3,335,896,704	26,706,020
Almasi loans	74,065,309	-
Emergency loans	24,373,603	153,198
FOSA loans	424,156,176	3,689,381
All other loans	61,818,543	25,153,447
	<b>3,920,310,335</b>	<b>55,702,046</b>
		<b>3,864,608,289</b>

## NOTES (CONTINUED)

### 8. Loans and advances (continued)

Taratibu, normal, makao, super loan and staff car loans  
Almasi loans  
Emergency loans  
FOSA loans  
All other loans

The provisions against loans and advances include the following:-

#### Year end 31 December 2023

Loan and advances

#### Year end 31 December 2022

Loan and advances

#### Provision as per statutory regulations

Category	Duration	Number of accounts	Loan Portfolio Shs	Rate (%)	2023 Shs	2022 Shs
Performing	- 0 day	6,318	3,692,640,888	1	36,926,409	32,323,284
Watch	- 1 - 30 days	119	84,568,541	5	4,228,427	3,820,230
Substandard	- 31 - 180 days	85	68,559,888	25	17,139,972	10,142,221
Doubtful	- 181 - 360 days	2	12,722,475	50	6,361,237	-
Loss	- Over 360 days	1,303	61,818,543	100	61,818,543	52,434,001
			<u>3,920,310,335</u>		<u>126,474,588</u>	<u>98,719,735</u>

All loans are dominated in Kenya Shillings.

#### (i) IFRS 9 provisions

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2023 is shown below. Comparative amounts for 2022 represent allowance account for credit losses and reflect measurement basis under IFRS 9.

	2023			2022		
	Stage 1 12-month ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total Shs	2022 Shs	2022 Shs
At start of year	(17,870,081)	(211,889)	(21,146,934)	(39,228,904)		39,228,904
Measurement of IFRS 9 provision	(24,974,429)	(397,501)	(30,330,115)	(55,702,045)		-
Net transfer between stages 1, 2 and 3	7,104,348	185,612	9,183,181	16,473,141		-
Net reameasurement of impairment	(24,974,429)	(397,501)	(30,330,115)	(55,702,045)		39,228,904

## NOTES (CONTINUED)

### 9. Other financial assets

	2023 Shs	2022 Shs
At start of year	82,926,257	85,157,481
Additions	-	-
Fair value (loss) / gain	(5,020,253)	(2,231,224)
	<u>77,906,004</u>	<u>82,926,257</u>

Fair value through other comprehensive income	No. of Shares	Market Price per Share		
Co-opholdings Cooperative Society Limited	11,156,118	6.75	75,303,797	80,324,049
Co-operative Insurance Society Limited	540,432	3.50	1,891,512	1,891,512
KUSCCO Limited	7,107	100.00	710,696	710,696
			<u>77,906,005</u>	<u>82,926,257</u>

Income from other financial assets at fair value through other comprehensive income (Note 2(d))

Dividend income	<u>14,746,941</u>	<u>9,808,738</u>
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The fair values of financial assets are categorised as follows based on the information set out on accounting policy (Note 1(g)).

Year ended 31 December 2023	Level 2 Shs	Level 3 Shs	Total Shs
Fair value through other comprehensive income	<u>77,195,309</u>	<u>710,696</u>	<u>77,906,005</u>

#### Year ended 31 December 2022

Fair value through other comprehensive income	<u>82,215,561</u>	<u>710,696</u>	<u>82,926,257</u>
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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 2023

	Furniture and fittings Shs	Computers and accessories Shs	Office equipments Shs	Leasehold improvements Shs	Total Shs
<b>Cost</b>					
At start of year	3,587,220	13,953,151	3,737,797	4,649,075	25,927,243
Additions	-	346,260	-	-	346,260
At end of year	<u>3,587,220</u>	<u>14,299,411</u>	<u>3,737,797</u>	<u>4,649,075</u>	<u>26,273,503</u>
<b>Accumulated depreciation</b>					
At start of year	2,376,571	11,631,668	1,715,646	2,299,654	18,023,539
Charge for the year	121,065	851,789	202,215	234,942	1,410,011
At end of year	<u>2,497,636</u>	<u>12,483,457</u>	<u>1,917,861</u>	<u>2,534,596</u>	<u>19,433,550</u>
<b>Net book value</b>	<u><u>1,089,584</u></u>	<u><u>1,815,954</u></u>	<u><u>1,819,936</u></u>	<u><u>2,114,479</u></u>	<u><u>6,839,953</u></u>

#### Year ended 31 December 2022

	Furniture and fittings Shs	Computers and accessories Shs	Office equipments Shs	Leasehold improvements Shs	Total Shs
<b>Cost</b>					
At start of year	3,566,670	13,598,163	3,441,748	4,649,075	25,255,656
Additions	20,550	354,988	296,049	-	671,587
At end of year	<u>3,587,220</u>	<u>13,953,151</u>	<u>3,737,797</u>	<u>4,649,075</u>	<u>25,927,243</u>
<b>Accumulated depreciation</b>					
At start of year	2,242,054	10,602,331	1,502,442	2,038,607	16,385,434
Charge for the year	134,517	1,029,337	213,204	261,047	1,638,105
At end of year	<u>2,376,571</u>	<u>11,631,668</u>	<u>1,715,646</u>	<u>2,299,654</u>	<u>18,023,539</u>
<b>Net book value</b>	<u><u>1,210,649</u></u>	<u><u>2,321,483</u></u>	<u><u>2,022,151</u></u>	<u><u>2,349,422</u></u>	<u><u>7,903,705</u></u>

### 11. Intangible assets (software)

	2023 Shs	2022 Shs
<b>Cost</b>		
At start of year	12,518,480	11,095,856
Additions	2,413,441	1,422,624
At end of year	<u>14,931,921</u>	<u>12,518,480</u>
<b>Amortisation</b>		
At start of year	7,733,370	7,346,588
Charge for the year	661,597	386,782
At end of year	<u>8,394,967</u>	<u>7,733,370</u>
<b>Net book values</b>	<u><u>6,536,954</u></u>	<u><u>4,785,110</u></u>

Amortisation costs of Shs. 661,597 (2022: Shs. 386,782) are included in other operating expenses in the profit or loss.



## NOTES (CONTINUED)

	2023 Shs	2022 Shs
<b>12. Payables</b>		
Trade payables	322,719	267,498
Honorarium provision	3,000,000	8,280,160
	<u>3,322,719</u>	<u>8,547,658</u>
<b>Other payables</b>		
Ex-members creditors	14,396,235	17,507,250
Proposed staff motivation	2,089,836	1,838,540
Unclaimed deposits	1,236,428	1,913,915
Levy on member deposit payable	5,052,642	4,502,021
Excise duty	324,118	232,344
Withholding tax payable	8,475	3,177
Audit fees payable	232,000	364,296
Other payables	141	114,014
Withholding VAT payable	8	33,302
Payroll liabilities	1,258,669	1,479,799
	<u>24,598,552</u>	<u>27,988,658</u>
<b>Total payables</b>	<u>27,921,271</u>	<u>36,536,316</u>
<b>13. Interest due to members</b>		
<b>a) To members</b>		
At the start of the year	268,091,242	244,246,195
Provisions for the year	315,362,631	268,091,242
Payments during the year	(268,091,242)	(244,246,195)
At end of year	<u>315,362,631</u>	<u>268,091,242</u>
<b>b) Savings deposits</b>		
At the start of the year	9,866,218	9,789,087
Provisions for the year	8,399,184	9,866,218
Payments during the year	(9,866,218)	(9,789,087)
	<u>8,399,184</u>	<u>9,866,218</u>
Total interest due	<u>323,761,815</u>	<u>277,957,460</u>
The directors recommended a provision of 11.5% (2022: 11%) interest on members deposits and 7% (2022: 7%) on members savings.		
The carrying amounts of the Society's interest due is denominated in the Kenya Shillings (Shs).		
<b>14. Members' deposits</b>	<b>2023 Shs</b>	<b>2022 Shs</b>
<b>Non withdrawable deposits</b>		
At start of year	2,555,625,813	2,292,476,335
Contribution during the year	497,677,224	442,375,078
Withdrawal during the year	(146,995,022)	(179,225,600)
At end of year	<u>2,906,308,016</u>	<u>2,555,625,813</u>
<b>Savings deposits</b>		
At start of year	281,029,566	250,128,407
Net (decrease) / increase during the year	(3,213,287)	30,901,159
At end of year	<u>277,816,279</u>	<u>281,029,566</u>
<b>Short term deposits</b>		
At start of year	50,568,708	29,978,865
Net (decrease) / increase during the year	11,908,043	20,589,843
At end of year	<u>62,476,751</u>	<u>50,568,708</u>
<b>Total members' deposits</b>	<u>3,246,601,046</u>	<u>2,887,224,087</u>

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)

	2023 Shs	2022 Shs
<b>15. Tax receivable</b>		
At start of year	(12,441,472)	(6,889,863)
Income tax expense	-	-
Tax paid	-	(5,551,609)
At end of year	<u>(12,441,472)</u>	<u>(12,441,472)</u>

## 16. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2022: 30%) on temporary differences other than fair value gains on unquoted financial assets which apply a rate of 5% (2022: 5%) as the rate for capital gains tax. The movement on the deferred tax account is as follows:

	2023 Shs	2022 Shs
At start of year	2,501,446	2,613,007
(Credit)/charge to other comprehensive income	<u>(753,038)</u>	<u>(111,561)</u>
At end of year	<u>1,748,408</u>	<u>2,501,446</u>

Deferred tax relates to the temporary differences arising from fair values changes in investment in shares held with Co-opholding Co-operative Society Limited, Co-operative Insurance Society Limited and KUSCCO Limited.

	2023 Shs	2022 Shs
<b>17. Share capital</b>		
At start of year	160,144,107	123,348,898
Contributions for the year	25,415,995	36,795,209
At end of year	<u>185,560,102</u>	<u>160,144,107</u>

## 18. Reserves

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

	2023 Shs	2022 Shs
i) Statutory reserve	<u>215,522,955</u>	<u>181,617,914</u>
ii) Credit Risk reserve	<u>70,772,542</u>	<u>59,490,831</u>
iii) Fair value reserve	<u>43,260,251</u>	<u>47,527,466</u>
iv) Retained Earnings	<u>594,455,496</u>	<u>495,817,783</u>
v) Proposed dividends	<u>29,967,956</u>	<u>27,224,499</u>

The total proposed dividend for the year is 17% of investment shares (2022: 17%) amounting to a total of Shs. 29,967,955 (2022: Shs. 27,224,499).

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

## NOTES (CONTINUED)

### 19. Related party transactions

	2023 Shs	2022 Shs
<b>i) Insider deposits</b>		
Total deposits and savings outstanding at end of year:		
Due to key management	9,334,823	7,740,520
Due to directors	19,824,360	15,437,928
Due to supervisory committee members	5,663,925	4,098,974
Due to other employees	12,101,563	10,305,579
Total deposits and savings	<u>46,924,670</u>	<u>37,583,001</u>
<b>ii) Key management personnel remuneration</b>		
Short term employee benefits	25,078,032	16,487,940
Honorarium/allowances	3,000,000	8,280,160
	<u>28,078,032</u>	<u>24,768,100</u>

### 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

	2023 Shs	2022 Shs
Total loans advanced during the year	<u>3,864,608,289</u>	<u>3,362,506,934</u>
Total loans outstanding at end of year:		
Loans to key management	44,582,780	38,497,238
Loans to directors	39,223,870	43,952,215
Loans to supervisory committee members	9,742,629	9,782,997
Loans to other employees	10,570,205	53,450,870
Total loans and advances	<u>104,119,484</u>	<u>145,683,320</u>

The effective interest rate on loans is 14% (2022: 14%)

### Insider loan ageing

Category	Duration	Loan Portfolio Shs	Rate (%)	2023 Shs	2022 Shs
Performing	0 day	104,119,484	1	1,041,195	1,456,833
Watch	1 - 30 days	-	5	-	-
Substandard	31 - 180 days	-	25	-	-
Doubtful	181 - 360 days	-	50	-	-
Loss	Over 360 days	-	100	-	-
		<u>104,119,484</u>		<u>1,041,195</u>	<u>1,456,833</u>

### 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 risk sub-committees under policies approved by the directors. The risk sub-committee identifies, evaluates and manage financial risks in close co-operation with various departmental heads. The directors provides written principles for overall risk management, as well as written policies covering specific areas, such as liquidity risk, interest rate risk, credit risk, and investment of excess liquidity.

The sub-committee reports to the directors on all aspects of risks including nature of risks, measures instituted to mitigate risk exposures etc.

## NOTES (CONTINUED)

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

#### (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. The Society maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

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.

	2023 Shs	2022 Shs
Effect on profit - arising from loans and advance - increase	<u>28,226,733</u>	<u>24,872,228</u>
Effect on profit - arising from members deposit - (decrease)	<u>(19,201,599)</u>	<u>(16,402,612)</u>

##### - 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 either as fair value through profit or loss or fair value through other comprehensive income.

The Society's investments in equity of other entities are publicly traded and included in the Nairobi Stock Exchange (NSE).

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

	Impact on other comprehensive income	
Index	2023 Shs	2022 Shs
NSE	<u>3,895,300</u>	<u>4,146,313</u>

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.

Profit for the year would increase/decrease as a result of gains/losses on equity securities classified as FVPL. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as FVOCI.

#### (b) Credit risk

Credit risk is the risk that a member or counterparty will default on its contractual obligation resulting in financial loss to the Society. The Society's main income generating activity is lending to members and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other financial institutions (including related commitments to lend such as loans or credit card facilities) and investment in debt securities. The Society considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

## NOTES (CONTINUED)

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

#### (b) Credit risk (continued)

##### Credit risk measurement

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

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

Providing advice, guidance and special skills business units to promote best practice in the management of credit risk.

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

##### Significant increase in credit risk

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

##### Internal credit risk rating

The Society takes on exposure to credit risk which is the risk of financial loss to the Society if a member or counterparty to a financial instrument fails to meet its contractual obligations.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of registered securities over assets and guarantees from members. Credit risk in the Society, is also managed through a framework of policies and procedures. Origination and approval roles are segregated.

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

## NOTES (CONTINUED)

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

#### (b) Credit risk (continued)

#### Significant increase in credit risk (continued)

#### Internal credit risk rating (continued)

To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty Society and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

The Society' grading systems is based on the basic principles issued by the regulatory authority SASRA on the basis that the periods are largely consistent with the IFRS presumptions on stages of credit products. 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. Such loans are considered under stage 1 - no significant increase in credit risk for purposes of the ECL calculation;
- (2) **Watch loans**, being loans whose principal or interest have remained un-paid for one day to thirty days or where one installment is outstanding for less than 30 days. Such loans are also classified as stage 1 for purposes of the ECL calculation;
- (3) **Substandard loan**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six installments have remained outstanding. Under this category, loans past due between 31 - 90 days (or 2-3 pending installments) are classified within in stage 2 - significant increase in credit risk for purposes of the ECL calculation. Loans aged beyond 90 days are classified as stage 3 - credit impaired;
- (4) **Doubtful loans**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve installments have remained outstanding. Such loans are classified as stage 3 for purposes of the ECL calculation; 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 installments have remained

The Society analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Society generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Society then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

Loan commitments are assessed along with the category of loan the Society is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

The Society presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Society has reasonable and supportable information that demonstrates otherwise.



## NOTES (CONTINUED)

The Society has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Society performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

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

#### (b) Credit risk (continued)

##### Significant increase in credit risk (continued)

##### Incorporation of forward- looking information

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

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

The principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for Kenya are as follows:

- GDP Growth
- Unemployment rates
- Interest rates
- Inflation

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

##### Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any



## NOTES (CONTINUED)

collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e., exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and the calculation are on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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

#### (b) Credit risk (continued)

##### Significant increase in credit risk (continued)

##### Incorporation of forward -looking information (continued)

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

The Society measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Society's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Society's exposure to credit losses to the contractual notice period. For such financial instruments the Society measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Society does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Society becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Society expects to take to mitigate ECL, e.g., reduction in limits or cancellation of the loan commitment.

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

##### Groupings based on shared risks characteristics

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

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

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

## NOTES (CONTINUED)

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

#### (b) Credit risk (continued)

#### Significant increase in credit risk (continued)

#### Credit quality

The credit quality of the portfolio of loans and advances (excluding commitments and guarantees) that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the sacco based on the guidelines provided by the SASRA as follow;

Year ended 31 December 2023	Taratibu, Normal, Makao, Superloan and staff car loans Shs	Almasi loans Shs	Emergency loans Shs	FOSA loans Shs	All other loans Shs	Total loans Shs
<b>Loans and advances to customers</b>						
0 Days (Performing, stage 1)	3,198,388,969	60,561,203	21,677,021	412,013,695	-	3,692,640,888
1- 30 Days (Watch, stage 1)	68,794,323	5,171,095	1,833,013	8,770,111	-	84,568,541
31 - 180 Days (Substandard, stage 2 and 3)	68,713,413	8,333,011	863,569	3,372,370	61,818,543	143,100,906
	<u>3,335,896,704</u>	<u>74,065,309</u>	<u>24,373,603</u>	<u>424,156,176</u>	<u>61,818,543</u>	<u>3,920,310,335</u>
<b>Year ended 31 December 2022</b>						
<b>Loans and advances to customers</b>						
0 Days (Performing, stage 1)	2,700,800,999	61,319,270	25,551,684	444,656,398	-	3,232,328,351
1- 30 Days (Watch, stage 1)	62,786,903	11,126,660	1,265,488	1,225,553	-	76,404,604
31 - 180 Days (Substandard, stage 2 and 3)	36,472,119	931,168	1,440,538	1,725,057	52,434,001	93,002,883
	<u>2,800,060,021</u>	<u>73,377,098</u>	<u>28,257,710</u>	<u>447,607,008</u>	<u>52,434,001</u>	<u>3,401,735,838</u>

Analysis of the Society's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

## NOTES (CONTINUED)

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

#### (b) Credit risk (continued)

##### Credit quality (continued)

Loans and advances to customers	Stage 1 12 Months ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total  Shs
<b>Year ended 31 December 2023</b>				
Taratibu, Normal, Makao, Super loan and Staff car loan	3,267,183,292	68,713,413	-	3,335,896,704
Almasi loans	65,732,298	8,333,011	-	74,065,309
Emergency loans	23,510,034	863,569	-	24,373,603
FOSA loans	420,783,806	3,372,370	-	424,156,176
All other loans	-	-	61,818,543	61,818,543
Total gross credit exposure	3,777,209,429	81,282,363	61,818,543	3,920,310,335
Expected credit loss provision	(24,974,429)	(397,501)	(30,330,115)	(55,702,045)
Net credit exposure	<u>3,752,235,000</u>	<u>80,884,862</u>	<u>31,488,428</u>	<u>3,864,608,290</u>
<b>Year ended 31 December 2022</b>				
Taratibu, Normal, Makao, Super loan and Staff car loan	2,763,589,659	36,472,120	-	2,800,061,779
Almasi loans	72,445,930	931,168	-	73,377,098
Emergency loans	26,817,172	1,440,538	-	28,257,710
FOSA loans	445,881,951	1,723,299	-	447,605,250
All other loans	-	-	52,434,001	52,434,001
Total gross credit exposure	3,308,734,712	40,567,125	52,434,001	3,401,735,838
Expected credit loss provision	(17,870,081)	(211,889)	(21,146,934)	(39,228,904)
Net credit exposure	<u>3,290,864,631</u>	<u>40,355,236</u>	<u>31,287,067</u>	<u>3,362,506,934</u>

##### Collateral held as security

The Society holds collateral against all loans and advances to members in the form of cash, residential, commercial and industrial property, fixed assets such motor vehicle, chattels and other members guarantees. The Society has developed specific policies and guidelines for the acceptance of different classes of collateral.

Estimates of the collateral's fair values are based on the value of collateral independently and professionally assessed at the time of borrowing, and re-valued with a frequency commensurate with nature and type of the collateral and credit advanced. Collateral structures and covenants are subjected to regular review to ensure they continue to fulfill the intended purpose. Collateral is generally not held in respect of deposits and balances due from banking institutions, items in the course of collection and Government securities.

## 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.

	Current to 1 year Shs	1 to 5 years Shs	Total Shs
<b>Year ended 31 December 2023</b>			
- Member deposits	340,293,030	2,906,308,016	3,246,601,046
- Payables	27,921,271	-	27,921,271
- Interest due	323,761,815	-	323,761,815
	<u>691,976,116</u>	<u>2,906,308,016</u>	<u>3,598,284,132</u>
<b>Year ended 31 December 2022</b>			
- Member deposits	331,598,274	2,555,625,813	2,887,224,087
- Payables	36,536,316	-	36,536,316
- Interest due	277,957,460	-	277,957,460
	<u>646,092,050</u>	<u>2,555,625,813</u>	<u>3,201,717,863</u>

### 22. Capital management

#### Internally imposed capital requirements

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

The capital structure of the Society consists of net debt calculated as 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 review 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 remains unchanged from 2022.

The debt-to-capital ratios at 31 December 2023 and 2022 were as follows:

	2023 Shs	2022 Shs
Total members deposits (Note 14)	<u>3,246,601,046</u>	<u>2,887,224,087</u>
Total cash and bank balances (Note 6)	<u>743,506,956</u>	<u>686,814,280</u>
Net debt	<u>2,503,094,090</u>	<u>2,200,409,807</u>
Total equity	<u>1,139,539,302</u>	<u>971,822,600</u>
Gearing ratio	<u>2.2:1</u>	<u>2.3:1</u>

## **NOTES (CONTINUED)**

### **22. Capital management (continued)**

#### **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 2023 and 2022 were as follows:

	2023 Shs	2022 Shs
<b>a) Core capital of not less than Shs 10 million</b>		
As per statement of financial position	<u>995,538,553</u>	<u>837,579,804</u>
<b>b) Core capital of not less than 10% of total assets;</b>		
As per statement of financial position	<u>21.0%</u>	<u>20.1%</u>
<b>c) Institutional capital of not less than 8% of total assets</b>		
As per statement of financial position	<u>17.1%</u>	<u>16.2%</u>
<b>d) Core capital of not less than 8% of total deposits.</b>		
As per statement of financial position	<u>31%</u>	<u>29.0%</u>

### **23. Other administrative expenses**

Printing and stationery	773,411	311,312
Security services	703,187	691,681
Telephone and postage	1,190,006	854,331
Auditor's remuneration	464,000	920,741
Other office expenses	457,870	473,104
Legal expenses	208,800	-
Consultancy services	380,045	1,156,925
Corporate social responsibility	65,000	225,000
Marketing and advertisement	533,392	265,331
Bulk SMS purchase spot cash	1,316,335	1,385,738
Bank charges	1,041,927	1,843,327
Entertainment expenses	26,500	140,460
Interest & Penalties	1,107,747	-
Levy on member deposits	5,052,642	5,103,989
<b>Total other administrative expenses</b>	<u><b>13,320,862</b></u>	<u><b>13,371,939</b></u>

## **NOTES (CONTINUED)**

	2023	2022
	Shs	Shs
<b>24. Other operating expenses</b>		
Depreciation on property and equipment	1,410,012	1,638,105
Amortisation of intangible assets	661,597	386,782
Licence and subscriptions	975,975	562,208
Insurance	22,584,287	21,562,078
Repair and maintenance	2,736,072	1,470,220
ATM connectivity fee	111,360	111,360
<b>Total other operating expenses</b>	<b><u>28,479,303</u></b>	<b><u>25,730,753</u></b>

## **25. Incorporation**

Kenpipe DT Savings and Credit Co-operative Society Limited is registered in Kenya under the Co-operative Societies Act and licensed under SACCO Societies Act as a deposit taking SACCO.

## **26. Presentation currency**

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



## BOARD OF DIRECTORS



*Vitalis Opapo  
Chairman*



*Andrew Gisore  
Vice Chair*



*Barton Kirui  
Treasurer*



*Mercy Wesitula  
Hon Secretary*



*Wycliff Mahinda  
Director*



*Edwin Kinyua  
Director*



*Albert Omare  
Director*



*Daniel Kimagut  
Director*



*Lucy Kariuki  
Director*



*Mwasambu Mbango  
CEO*

## SUPERVISORY COMMITTEE



*George Metho  
Chairman*



*Maurine Kitoto  
Secretary*



*Simon Githithi  
Member*