TECHNICAL RELEASE

PSC/TR-003/2016

MKOPO SACCO LIMITED
ILLUSTRATIVE FINANCIAL STATEMENTS
31 DECEMBER 2015

Issued: March 2016

MKOPO SACCO LIMITED	IAS1. p51
C/S ………………………	
ANNUAL REPORT AND FINANCIAL STATEMENTS	IAS1. p51
FOR THE YEAR ENDED 31 DECEMBER 2015	IAS1. p51

November 2013

INTRODUCTORY NOTES

This specimen provides an illustrative set of financial statements prepared in accordance with International Financial Reporting Standards and the reporting requirements of the Sacco Society Act No.14 of 2008 for accounting periods beginning on or after 1 January 2015 .The presentation format is not the only acceptable form of presentation and other forms of presentation may be acceptable provided that they comply with the presentation and disclosure requirements of IFRS.

The specimen is intended as guidance for members of ICPAK. The specimen is not a substitute for reading the standards nor is it an interpretation of IFRS, and where necessary, reference should be made to the specific standards.

The following specimen does not cover the following standards / disclosures:

- IAS 11 - 'Construction contracts'
- IAS 20 - 'Accounting for government grants'
- IAS 26 - 'Accounting and Reporting by Retirement Benefit Plans'
- IAS 28 - 'Invetsments in Associates and Joint Ventures'
- IAS 33 - 'Earnings per share'
- IAS 34 - 'Interim Financial Reporting'
- IAS 41 - 'Biological assets'
- IFRS 1 - 'First time Adoption of International Financial Reporting Standards'
- IFRS 2 - 'Share based payments'
- IFRS 3 - 'Business Combination'
- IFRS 4 - 'Insurance Contracts'
- IFRS 5 - 'Non Current Assets'
- IFRS 6 - 'Exploration for and Evaluation of Mineral Resources '
- IFRS 7 - 'Financial Instruments' in respect of derivatives and hedge accounting
- IFRS 8 - 'Segmental reporting'
- IFRS 9 - 'Financial Instruments'
- IFRS 10 - 'Consolidated Financial Statements'
- IFRS 11 - 'Joint Arrangement'
- IFRS 12 - 'Disclosure of Interests in Other Entities'
- IFRS 14 - 'Regulatory Deferral Accounts'
- IFRS 15 - 'Revenue from contract with customers'

Abbreviations

IFRS1p.37	- International Financial Reporting Standard [number], paragraph [number].
IAS7p.22	- International Accounting Standards [number], paragraph [number].
IAS7p.22 VD	- International Accounting Standards [number], paragraph [number] Voluntary Disclose. Disclosure is encouraged but not required and, therefore, represents best practice.
SSA	- Sacco Societies Act No. 14 of 2008
SSAD	- Sacco Societies Act No.14 of 2008 - Deposit taking (DP)
IG	- Implementation Guidance
SSAD- SOI	-Sacco Societies Act No. 14 of 2008 DP- statement of income and expenditure

The institute acknowledges the key contribution by PKF Kenya in preparing this specimen.

CONTENTS

IAS 1 permits the use of different titles for the various financial statements.
The titles used here are those used in the standard. IAS1. p10

SOCIETY INFORMATION

BOARD AND SUPERVISORY COMMITTEE MEMBERS	: ……………………….	
	: ……………………….	
CHIEF OFFICERS	: ……………………….	
	: ……………………….	
REGISTERED OFFICE	: L.R. No. ……………..	IAS1. p138(a)
	: …...th Floor	
	: ……... Building	
	: ……………. Street/Road	
	: P.O. Box …………	
	: NAIROBI	
PRINCIPAL PLACE OF BUSINESS	: …...th Floor	IAS1. p138(a)
(if different from registered office)	: ……... Building	
	: ……………. Street/Road	
	: P.O. Box …………	
	: NAIROBI	
	: Telephone …………	
	: Fax …………………..	
	: Email …………………	
INDEPENDENT AUDITOR	:	
	: Certified Public Accountants	
	: P.O. Box	
	: NAIROBI	
PRINCIPAL BANKERS	: ……………………….	
	: NAIROBI	
LEGAL ADVISORS	: ……………………….	
	: NAIROBI	

Statistical Information

		2015	2014	2013	2012	2011	SSAD 55 (2d)
Membership							
	- active	x	x	x	x	x	IG 7
	- dormant	x	x	x	x	x	
		x	x	x	x	x	
		Shs	**Shs**	**Shs**	**Shs**	**Shs**	
Financial							
Total assets		x	x	x	x	x	
Members' deposit		x	x	x	x	x	
External borrowing		x	x	x	x	x	
Loan and advances to members		x	x	x	x	x	
Investments		x	x	x	x	x	
Core capital		x	x	x	x	x	
Share capital		x	x	x	x	x	
Institutional capital		x	x	x	x	x	
Total revenue		x	x	x	x	x	
Total interest income		x	x	x	x	x	
Total expenses		x	x	x	x	x	
		Numbers	**Numbers**	**Numbers**	**Numbers**	**Numbers**	
Employees of the Sacco		x	x	x	x	x	
Key ratios		**%**	**%**	**%**	**%**	**%**	
Capital Adequacy Ratio							
Core capital/ Total Assets		x	x	x	x	x	SSAD 9 (b)
	Minimum ratio	10%	10%	10%	10%	10%	
Core capital/ Total Deposits		x	x	x	x	x	SSAD 9 (d)
	Minimum ratio	8%	8%	8%	8%	8%	
Institutional Capital/Total Assets		x	x	x	x	x	SSAD 9 (c)
	Minimum ratio	10%	10%	10%	10%	10%	
External Borrowing Ratio							
External borrowing/ Total assets		x	x	x	x	x	SSAD 35.1
	Minimum ratio	25%	25%	25%	25%	25%	
Liquid Ratio (15%)							
Liquid asset/Total deposit and long term liabilities		x	x	x	x	x	
Operating Efficiency/Loan Quality Ratio		x	x	x	x	x	
Total expenses/ Total revenue		x	x	x	x	x	
Interest on member deposits/ Total revenue		x	x	x	x	x	
Interest rate on member deposits		x	x	x	x	x	
Dividend rate on member share capital		x	x	x	x	x	
Total Delinquency loan/ Gross loan portfolio		x	x	x	x	x	

CHAIRMAN'S REPORT

As appropriate **IG 4**

Not illustrated - Need to be tailored to individual circumstances

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the society.

INCORPORATION

The society is incorporated in Kenya under the Cooperative Society Act, Cap 490 and Licensed under the Sacco Societies Act No. 14 of 2008, and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The principal activities of the society is …/ the society is principally involved in…………………… IAS1. p138(b)

RESULTS	**2015 Shs**	**2014 Shs**
Surplus/(deficit) before tax		
Tax (charge)/credit		
Surplus/(deficit) after tax		
Surplus/(deficit) for the year		
Interest on members' deposit		

DIVIDEND/INTEREST ON MEMBER'S DEPOSIT

The directors recommends payment of first and final dividend of Shs …….. per share (2014: Shs …... per share) amounting to a total of ………% (2014: ………%). They also recommend interest on members' deposit of...........% (2014...........%) IG 6

OR

The directors do not recommend the declaration of a dividend for the year (2014: Shs….......)

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS

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

In accordance with the society's Articles of Association, no director is due for retirement by rotation.

OR

....................and .... retire by rotation in accordance with the society's Articles of Association and being eligible, offer themselves for re-election.

INDEPENDENT AUDITOR

The society's auditor, ..., has indicated willingness to continue in office in accordance with Sacco Societies Act No. 14 of 2008.

OR

During the year, ... was appointed during the year and continues in accordance with Sacco Societies Act No. 14 of 2008.

BY ORDER OF THE BOARD

Signature.. Date..............................2016

Secretary

(location of where the report is being signed if different)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Sacco Societies Act No.14 of 2008 requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the society as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the society maintains proper accounting records which disclose with reasonable accuracy the financial position of the society. The directors are also responsible for safeguarding the assets of the society.

They directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. The also accept responsibility for:

(i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements;
(ii) Selecting and applying appropriate accounting policies; and
(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of financial affairs of the society as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008.

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.

Approved by the board of directors on ___________________ 2016 and signed on its behalf by:

____________________________ **Chairman**

____________________________ **Treasurer**

____________________________ **Board Member**

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MKOPO SACCO LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Mkopo Sacco Limited set out on pages 9 to 71 which comprise the Society's statement of financial position as at 31 December 2015, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director's responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Sacco Societies Act No. 14 of 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assesement of risks of material mistatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of Mkopo Sacco Limited as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No.14 of 2008.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MKOPO SACCO LIMITED (CONTINUED)

Report on other legal requirements

As required by the Sacco Societies Act No. 14 of 2008, we report to you based on our audit that: **SSA** (44(4))

i) we have obtained reasonable assurance that the society is solvent and have not identified any significant concerns with respect to the financial condition of the society's business;
ii) we are not aware of any violation of prudential standards or conditions of the licence; and
iii) we are not aware of any other contravention of the Sacco Societies Act No. 14 of 2008.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA .... – P/No................

Certified Public Accountants
Nairobi

___________________________2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME IAS1. p10

	Notes	2015 Shs	2014 Shs	
Revenue				
Interest income				
- Interest on loans and advances	2 (a)			
- Other interest income	2 (b)			
Total interest income				
Interest expenses	2 (c)			
Net interest income				
Other gains and losses				
Net fee and commission income	2 (d)			
Other operating income	2 (e)			IAS1. p99
Credit impairment charges and other provision on financial assets				IFRS 7. p20
Administrative expenses				IAS1. p99
Other operating expenses				IAS1. p99
Operating surplus before tax	3			IAS1. p85
Income tax (charge)/credit	7			IAS1. p82(d)
Profit /(loss) for the year				IAS1. P10a
Items that will not be reclassified subsequently to profit or loss:				
Gains/(losses) on property revaluation				
Deferred tax relating to items that will not be subsequently reclassified				
Items that may be reclassified subsequently to profit or loss:				
- Net fair value movement on available for sale instruments:				
- Deferred tax relating to items that may be reclassified				
Total comprehensive income/(loss) for the year attributable to members of the society				IAS 1. p82 (a)

The notes on pages 14 to 71 form an integral part of these financial statements.

Report of the independent auditor - pages 7 and 8.

STATEMENT OF FINANCIAL POSITION IAS1. p10

	Notes	As at 31 December 2015 Shs	2014 Shs	
				IAS1. p39
REPRESENTED BY				
Assets				IAS1. p63
Cash and cash equivalents	6			
Other receivables and prepayment	7			
Loans and advances	8			
Other financial assets	11			
Tax recoverable				
Inventories	9			
Investment property	10			
Prepaid operating lease rentals	11			
Property and equipment	13			
Intangible assets	14			
Deferred tax	10			
Liabilities				IAS1. p63
Member deposits	16			
Borrowings	17			
Other payables	18			
Deferred tax	10			
Other accrued liabilities	21			
Provisions for liabilities	20			
Tax payable	19			
Retirement benefit obligations	22			
FINANCED BY				IAS1. p54r
Investment shares	24			
Statutory reserve				
Fair value reserve				
Revaluation reserve				
Regulatory reserve				
Retained earnings				
Proposed dividend	25			

The financial statements on pages 9 to 71 were approved and authorised for issue by the Board of

Directors on__________________________2016 and were signed on its behalf by: IAS10. p17

__________________ DIRECTOR ____________ DIRECTOR

The notes on pages 14 to 71 form an integral part of these financial statements.
Report of the independent auditor - pages 7 and 8.

STATEMENT OF CHANGES IN EQUITY

IAS1. p10

	Notes	Investment shares Shs	Statutory reserve Shs	Fair value reserve Shs	Revaluation reserve Shs	Regulatory reserve Shs	Retained earning Shs	Proposed dividend Shs	Total Shs
Year ended 31 December 2015									
At start of year									
As previously stated									
Prior year adjustments									
(including effects of adopting IFRS's)*									
As restated									
Total comprehensive income/(loss) for the year									
- gain/(loss) on revaluation									
- deferred tax effect on revaluation									
- fair value of gain/(loss) on available for sale assets									
Transfer of excess depreciation									
Deferred tax on depreciation transfer									
Transfer to statutory reserve									
Transfer to loan loss reserve account									
Transactions with owners:									
Share issued for cash/ Bonus issues of shares	11								
Dividends:									
- Final for 2014 (paid)	8								
- Interim for 2015 (paid)	8								
- Final for 2015 (proposed)	8								
At end of year									

** NB - PYA - a detailed description is required in the notes to the FS. Please refer to IAS 8 for the detailed listing on the disclosures to be made.*
NB. Transfers between reserves do not constitute other comprehensive income and should be reported on this statement.

STATEMENT OF CHANGES IN EQUITY

IAS1. p10

	Notes	Investment shares	Statutory reserve	Fair value reserve	Revaluation reserve	Regulatory reserve	Retained earning	Proposed dividend	Total
		Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Year ended 31 December 2014									
At start of year									
As previously stated									
Prior year adjustments									
(including effects of adopting IFRS's)*									
As restated									
Total comprehensive income/(loss) for the year									
- gain/(loss) on revaluation									
- deferred tax effect on revaluation									
- fair value of gain/(loss) on available for sale assets									
Transfer of excess depreciation									
Deferred tax on depreciation transfer									
Transfer to statutory reserve									
Transfer to loan loss reserve account									
Transactions with owners:									
Share issued for cash/ Bonus issues of shares	11								
Dividends:									
- Final for 2013 (paid)	8								
- Interim for 2014 (paid)	8								
- Final for 2014 (proposed)	8								
At end of year									

** NB - PYA - a detailed description is required in the notes to the FS. Please refer to IAS 8 for the detailed listing on the disclosures to be made.*
NB. Transfers between reserves do not constitute other comprehensive income and should be reported on this statement.

The notes on pages 14 to 71 form an integral part of these financial statements.

Report of the independent auditor - pages 7 and 8.

STATEMENT OF CASH FLOWS

IAS1. p10

	Notes	2015 Shs	2014 Shs	
Cash flows from operating activities				IAS7. p18(b)
Interest and other receipts				
Interest payments				
Net fee and commission income				
Other operating income				
Recoveries on loans previously written off				
Payment to employees and suppliers				
Operating activities				
Increase/(decrease) in operating assets				
Loans to members				
Debtors and prepayments				
Inventories				
Decrease/(increase) in operating liabilities				
Members deposits				
Creditors and accruals				
Net cash from operating activities before income taxes				
Income tax paid				
Net cash generated from/(used in) operating activities				
Investing activities				
Cash paid for purchase of property, plant and equipment				
Cash paid for purchase of investment properties				
Cash paid for in respect of prepaid operating lease rentals				
Cash paid for purchase of intangible assets				
Cash paid for purchase of financial assets				
Proceeds from disposal of property, plant and equipment				
Proceeds from disposal of investment properties				
Proceeds from disposal of financial assets				
Interest received				
Dividends received				
Net cash generated from/(used in) investing activities				
Financing activities				
Proceeds from issue of investment shares				
Changes in restricted cash balances				
Proceeds from: borrowings				
Repayments of: borrowings				
Dividends paid				
Net cash generated from/(used in) financing activities				
Increase/(decrease) in cash and cash equivalents				
Movement in cash and cash equivalents				
At start of year				
Increase/(decrease) in cash and cash equivalents				
At end of year				IAS7. p6

The notes on pages 14 to 71 form an integral part of these financial statements.

Report of the independent auditor - pages 7 and 8.

NOTES IAS1. p10

1. **SIGNIFICANT ACCOUNTING POLICIES**

The significant 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. IAS1. p112 117

a) **Basis of preparation**

The financial statement have been prepared in accordance with International Financial Reporting Standard (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to societies reporting under IFRS.

The financial statements comprise a profit and loss account (income statement),statement of other comprehensive income, balance sheet (statement of financial position), statement of changes in equity, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income are recognised in the statement of comprehensive income and comprises items of income and expense, (including reclassification adjustments) that are not recognised in the profit and and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

Going concern

The financial performance of the society is set out in the Director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 34.

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

These financial statements comply with the requirements of the Sacco Societies Act No. 14 of 2008. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below:

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Society using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account. IFRS13.9 IFRS13.61-67

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Basis of measurement (continued)

Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are those derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which he change occurred.

New and amended standards adopted by the Society IAS 8. p28

This section only needs to include those standards that are effective and have had an effect on the entity.

A number of amendments to standards became effective for the first time in the financial year beginning 1st January 2015 and have been adopted by the company. None of them has had an effect on the Society's financial statements.

- Amendments to IAS 19 titled *Defined Benefit Plans: Employee Contributions* (issued in November 2013). The amendments, applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service contribution should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service).
- Amendments to IAS 16 and IAS 38 *(annual improvements ton IFRS 2011- 2012 Cycle* , issued in December 2013) . The amendment applicable to annual periods beginning on or after 1 July 2014, clarifies how the gross carrying amount and the accumulated depreciation/ amortisation are treated where an entity uses the revaluation model.
- Amendment to IAS 24 *(annual improvements ton IFRS 2011- 2012* Cycle, issued in December 2013) The amendment applicable to annual periods beginning on or after 1 July 2014, clarifies how payments to entities providing management services are to be enclosed.
- Amendment to IFRS 8 (*annual improvements ton IFRS 2011- 2012 Cycle* , issued in December 2013) The amendment applicable to annual periods beginning on or after 1 July 2014, requires disclosures of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly.
- Amendment to IAS 40 (*annual improvements ton IFRS 2011- 2012 Cycle* , issued in December 2013) The amendment applicable to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 and IAS 40 are not mutually exclusive: while IAS 40 assists preparers distinguish between investment property and owner-occupied property, IFRS 3 helps them to determine whether the acquisition of an investment property is a business combination.
- Amendment to IFRS 3 (*annual improvements ton IFRS 2011- 2012 Cycle* , issued in December 2013) The amendment applicable prospectively to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 excludes from its scope the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement.
- Amendment to IFRS 13 (*annual improvements ton IFRS 2011- 2012 Cycle* , issued in December 2013) The amendment applicable to annual periods beginning on or after 1 July 2014, clarifies that the portfolio exception in IFRS 13- allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis- applies to all contracts(including non Financial) within the scope of IAS 39/IFRS 9.

NOTES (CONTINUED) IAS1. p10

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

New standards, amendments and interpretations issued but not effective IAS 8. p30

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:

- IFRS 14 in respect of Regulatory Deferral Accounts (issued in January 2014) which will be effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities continue apply their existing policy for regulatory deferral account balances, but requires certain disclosures.

- Amendments to IFRS 11 titled Accounting for Acquisitions of Interest in Joint Operations (issued in May 2014) which will be applicable prospectively for annual accounting periods beginning on or after 1 January 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosures in IFRS 3 and other IFRSs, except for those principles that conflict with guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation(in the latter case, previously held interests are not remeasured).

- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation(issued in May 2014)- The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016

- Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer plants (issued in June 2014) - The amendments, applicable to annual periods beginning on or after 1 January 2016,define bearer plants i.e. living plants which are solely to grow produce over several periods and usually scrapped at the end of their productive lives (e.g. grape vines, rubber trees, oil palms)- and include them within IAS 16's scope while the produce growing on bearer plants remain within the scope of IAS 41.

- Amendments to IAS 27 titled Equity method in Separate Financial Statements (issued in August 2014)- The amendments, applicable to annual periods beginning on or after 1 January 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

- IFRS 9 Financial Instruments(Issued in July 2014)- This standard will replace IAS 39(and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018.It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

  - IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value(through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
  - For Financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
  - For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence for impairment before a credit loss is recognised.
  - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non financial risk exposures.
  - The derecognition provisions are carried over almost unchanged from IAS 39.

- Amendment to IAS 19 (Annual improvements to IFRSs 2012- 2014 Cycle, issued in September 2014) The amendments, applicable prospectively to annual periods beginning on after 1 January 2016, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) -The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds specific guidance when an entity reclassifies an asset (or group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.

- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) -The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an associate or joint venture (issued in September 2014) -The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, address a current conflict between the two standards and clarify that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014) -The amendment, applicable to annual periods beginning on or after 1 January 2016, clarify guidance the application of the consolidation exception for investment entities and their subsidiaries.

- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014) clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies

The directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

Please note that the list above is an illustrative example as of November 2015 and may need to be updated for more recent pronouncements to the date of approval of these financial statements. Also note that where a future change is likely to have a material effect, this needs enhanced disclosure.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b) **Critical estimates and judgements** IAS 1. p125

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

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

- **Impairment losses on loans and advances**

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

- **Fair value of financial instruments**

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

  The valuation of financial instruments is described in more detail in note 7.

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

- **Retirement benefit obligation**
  Actuarial assumptions are made in valuing future defined benefit obligations and are updated periodically. The principal assumption relates to the discount rate. The discount rate is equal to the yield on government securities which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that this assumption will continue in the future.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

c) **Revenue recognition**

Interest income and expense IAS18. p35(a)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the society estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income

Fees and commission income, including account servicing fees, sales commission and custody fees are generally recognised on an accrual basis when the service has been provided.

Other income

i) Rental income is accrued by reference to time on a straight line basis over the lease term
ii) Dividend is recognised when the right to receive income is established. Dividend are reflected as a component of other operating income based on the underlying classification of the equity instrument.

d) **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. IAS 16. p73(a)

Freehold and leasehold land and buildings are subsequently shown at market value, based on periodic valuations less subsequent depreciation. IAS 16. p73(a)

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. Decreases that offset previous increases of the same asset are charged to other comprehensive income; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the retained earnings to revaluation reserve. IAS 16. p39, 40,41

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the society and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred. IAS 16. p12

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

d) **Property and equipment (continued)**

Freehold land is not depreciated.

Leasehold land is depreciated over the remaining period of the lease. IAS 16. p73 (b)

Depreciation on all other assets is calculated on the reducing balance basis [*or straight line* if that applies] method to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates: IAS 16. p73 (c)

	Rate %
Buildings	
Motor vehicles	
Furniture and fittings	
Office equipment	
Computer equipment	

IAS 16. p73 (c)

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. IAS 16. p51

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. IAS 36. p59

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity. IAS 16. p68,71

e) **Investment property**

Fair value model:

Investment property are long-term investments in land and buildings that are not occupied substantially for own use. Investment property are initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date Changes in fair value are recorded in profit or loss. IAS 40. p75,76 IAS 40. p75(a)

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

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

OR

Cost model:

Investment property is long-term investments in land and buildings that are not occupied substantially for own use. Investment property is initially recognised at cost and subsequently stated at historical cost less accumulated depreciation. IAS 40. p75(a)

Depreciation is calculated using the straight line method to write down the cost of the property to its residual value over its estimated useful life using the following annual rates:

	Rate %
Freehold land	Nil
Leasehold land	Lease period
Buildings	2

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

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

e) **Investment property (continued)**

The properties carrying amounts are written down immediately to their recoverable amount if the carrying amount is greater than their estimated recoverable amount.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss).

f) **Intangible assets**

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

i) **Trade marks and licences**

Trade marks and licences are shown at historical cost. Trade marks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over a period of ____ years to allocate the cost of trademarks and licences over their estimated useful lives. (State how many years the asset is amortised over). IAS 38. p118(a) and (b)

ii) **Computer software**

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be ___ years. (State how many years the asset is amortised over). IAS 38. p118(a) and (b) IAS 38. p4

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the society, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be ___ years. IAS 38. p68,71 IAS 38. p118(a) and (b)

In the case that a society has development costs refer to IAS 38 para 57)

g) **Impairment of non-financial assets and intangible assets**

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

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. IAS 36. p9,10

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 the end of each reporting period.

h) **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 assets at initial recognition.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- ***Financial assets (continued)***

IFRS 7. 21

- ***Financial assets***
  Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.
  The society's financial assets fall into the following categories:

  - **Held-to-maturity:** financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss. IAS 1. 117

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

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

  - **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss.

  - **Financial assets at fair value through profit or loss:** financial assets that are acquired or incurred principally for the purpose of generating a profit from short term fluctuation in price or dealer's margin. Such assets are carried at fair value and the fair value gains or losses are recognised in profit or loss. This category has two sub-categories: **IFRS 7.B5(e)**

    - financial assets held-for-trading and;
    - those designated at fair value through profit or loss at inception.

  A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern evidence of a recent actual pattern of short-term profit-taking.

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

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- ***Financial assets (continued)***

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

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

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

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

Management classifies financial assets as follows:

Quoted investments, _______ and _______ 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.

Government securities are classified as held-to-maturity as the society has the intention and ability to hold these to maturity. These are carried at amortised cost.

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

**(The above are examples of investments. In practice, a society may have several more types of investments and their classifications and accounting treatment (per IAS 39) need to be tailored and disclosed in similar formats as above).*

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- ***Financial liabilities***

The society's financial liabilities which include _______,_________,____________________ and fall into the following categories:

- **Financial liabilities at fair value through profit or loss:** financial liabilities that are acquired or incurred principally for the purpose of repurchasing in the near term or upon initial recognition is part of a portfolio that has a recent pattern of short term profit taking. Such liabilities are carried at fair value and the fair value gains or losses are included in profit or loss. This category has two sub-categories:

  - financial assets held-for-trading and;
  - those designated at fair value through profit or loss at inception.

- **Financial liabilities measured at amortised cost:** These include borrowings, trade and other payables, current tax, _____ and ____________. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

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

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

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

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially completed for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- ***Financial liabilities (continued)***

Preference shares which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as interest expense under finance costs.

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

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

- **Offsetting financial instruments**

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

i) **Inventories**

IAS 2. p36(a)

Inventories consumables and are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) basis and comprises all costs attributable to bringing the inventories to their current location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

j) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand,deposits held at call with banks, and financial assets with maturities of less than 3 months, net of bank overdrafts and money market lines. IAS7. p45

Restricted cash balances are those balances that the society cannot use for working capital purposes and are reduced from cash and cash equivalent.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

k) **Investment shares**

Member interest are classified as equity where the entity has an unconditional right to refuse redemption of the members' shares. IAS32. p18(a)

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

l) **Reserves**

- **Statutory reserve**

  Transfers are made to the statutory reserve fund at a rate of 20% of net operating surplus after tax in compliance with the provision of section 47 (1& 2) of the Co-operative Societies Act, Cap 490.

- **Regulatory reserve**

  Where impairment losses required by legislation or regulation exceed those calculated under International Financial Reporting Standards (IFRSs), the excess is recognised as a regulatory credit risk and accounted for as an appropriation of retained profits . These reserve are not distributable.

m) **Dividends**

Proposed dividends are disclosed as a separate component of equity until declared. IAS10. p12

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

n) **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in the comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income and equity. IAS12. p58 IAS12. p61(a)

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation. IAS12. p46

Deferred tax
Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised. IAS12. p24 IAS12. p15 IAS12. p34 IAS12. p47

For the purposes of measuring deferred tax liabilities and deferred tax asset for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

o) **Accounting for leases**

The society as lessee

Leases of assets where the society assumes substantially all the risks and rewards of ownership, are classified as finance leases. IAS17. p20 IAS17. p27
Assets held under finance leases are initially recognised as assets of the society at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the society's general policy on borrowing costs (see note o above). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Such property, plant and equipment is depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease. Lease incentives received are recognised as a liability and reduction of the rental expense on a straight line basis. IAS17. p33

The society as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the society's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the society's net investment outstanding in respect of the leases.

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position. IAS 17. p49

Leased assets are recorded at historical cost less depreciation.

Depreciation is calculated on the straight line basis to write down the cost of leased assets to their residual values over their estimated useful life using annual rates consistent with the normal depreciation policies for similar assets under property, plant and equipment.

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

p) **Provisions**

Provisions for restructuring costs and legal claims are recognised when the society has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions for future operating losses are not recognised. IAS 37. p14, 72,63

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. IAS 37. p24

The amount recognised as a provision is the best estimate of the present value of expenditures expected to be incurred to settle the obligation using a pre-tax rate that reflects the current market assessments of time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense in profit or loss under finance costs. IAS 37. p45

q) **Employee entitlements**

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

r) **Retirement benefit obligations**

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The society operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance society. The society's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The society has no further payment obligations once the contributions have been paid. IAS19. p44

OR

The society operates a defined benefit staff retirement benefit scheme for its permanent and pensionable employees. The pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry a full valuation of the plan every three years. The retirement benefit obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses are recognised in other comprehensive income. IAS19. p93 IAS19. p120(a)

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.

s) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. IAS1. p41,42

NOTES (CONTINUED)

	2015 Shs	2014 Shs	
2. **a) Interest income**			IAS18. p29-35
BOSA Loans			
FOSA Loans			
FOSA Advances			
b) Other interest income			IFRS7p20(b)
Interest income:			
- fair value through profit or loss financial assets			
- available-for-sale financial assets			
- held-to-maturity financial assets			
- loans and receivables			
- interest income on impaired financial assets			IFRS 7 p20 (d)
c) Finance costs			
i) Statement of profit or loss			SSAD- SOI p4:4.4
Interest expense:			IFRS7p20(b)
- bank loans			
- members deposits			
- bank overdrafts			
- finance leases			
- other borrowings			
ii) Statement of changes in equity			
Dividend paid during the year			SSAD- SOI p4:4.4
d) Net fee and commission income			IAS18. p14
Fee and commission income			IFRS7p20
Service fee			
Appriasal fees			
Other fees			
Commision (Mpesa, Msacco, ATM)			
Total fee and commission income			
Fee and commission expense			
Inter bank transaction fee			
Brokerage fee			
Other			
Total fee and commission expense			
Net fee and commission income			

Net fee and commission income represents transaction income in the Sacco Socities Act No. 14 of 2008

Fees and Commissions expense: This includes all charges (fees) and commissions relating to account operations such as bank charges, ledger fees, cheque and money transfer commissions but excluding interest on overdrafts.

NOTES (CONTINUED)

	2015 Shs	2014 Shs	
2. **e) Other income**			
i) Income from core operating activities			
Dividend income:			IAS18. p29-30
- fair value through profit or loss financial assets			
- available-for-sale financial assets			
Fair value losses/gains			IAS18. p20(a)
- fair value through profit or loss financial assets			
- investment property			
Profit on disposal of property, plant and equipment			IAS16. p67-68
Profit on disposal of investment property			IAS40. p69
Profit on disposal of financial assets			IAS18. p20(a)
- fair value through profit or loss financial assets			
- available-for-sale financial assets			
Net investment property rental income (Note 18)			
Insurance claims			
Bad debts recovered			
ii) Income from non-core operating activities			SSAD- SOI p9
Business development services			
Consulting services			
Commisions from insurance			
Sale of merchandise			
Total other income			

For a better understanding to a reader of the financial statements, a brief description of any unclear items under other operating income may be given. This is not mandatory.
SASRA requires that income from none core business income be disclosed separately

	2015 Shs	2014 Shs	
3. **Operating surplus before tax**			
The following items have been charged in arriving at net operating surplus:			
a) Administration expenses			SSAD- SOI p7:7.5
Travelling and subsistence			
Printing &stationery			
Ushirika day celebrations			
Computer expenses			
Supervision fees to the Commissioner			
Auditors' remuneration			
Legal fees			
Impairement of property and equipment			
Staff costs (Note 4)			SSAD- SOI p7:7.1
Donations			

NOTES (CONTINUED)

3. **Operating surplus before tax (continued)**	**2015 Shs**	**2014 Shs**	
The following items have been charged in arriving at net operating surplus:			
b) **Impairment of loans and advances**			
c) **Other operating expense**			SSAD- SOI p7:7.5
Rates and rent			SSAD- SOI p7:7.4
Water, fuel and electricity			
Insurance expenses – Property only			
Repair and maintenance			
SASRA Levy			

Sasra rules require disclosure of expenses not disclosed in other categories. Disclosure of key expense can be done on notes and rest on the appendix.
SASRA requires that expenses from none core business income be disclosed separately

d) **Depreciation and amortisation**			
Depreciation on property and equipment			
Amortisation of intangible assets			
Amortisation of prepaid operating lease rentals			
d) **Governance expenses (member related costs)**			SSAD- SOI p7:7.2
Board meetings			
Members education			
Sitting allowance			
AGM expenses			
e) **Marketing expenses**			SSAD- SOI p7:7.3
Public relations and advertisements			
Product development & promotion			
f) **Income from non-core operating activities**			SSAD- SOI p7:7.3
Business development services costs			
Consulting services costs			
Direct cost of insurance income			
Cost of merchandise			

4. **Staff costs**	**2015 Shs**	**2014 Shs**	IAS19p142
Staff leave accrual (Note 21)			
Pension costs:			IAS19p46
- defined contribution scheme			
- defined benefit scheme (Note 21)			
- National Social Security Fund			
- other post employment benefits			

5. Tax

	2015 Shs	2014 Shs	
Current tax			IAS 12. p80 (a)
Deferred tax charge/(credit) (Note 13)			IAS 12. p80 (c)
(Over)/under provision in prior years on:			IAS 12. p80 (b)
- current tax			IAS 12. p80 (b)
- deferred tax			IAS 12. p80 (b)
Tax charge/(credit)			

The tax on the society's profit/(loss) before tax differs from the theoretical amount that would arise using the basic rate as follows: IAS 12. p81 (c)

	2015 Shs	2014 Shs	
Profit/(loss) before tax			
Tax calculated at a tax rate of 30% (2013: 30%)			IAS 12 p81 (c)
Tax effect of:			IAS 12 p81 (c)
- expenses not deductible for tax purposes			
- income not subject to tax			
- utilisation of previously unrecognised tax losses			IAS 12 p80 (e)
- tax losses on which no deferred tax has been recognised			
- (over)/under provision in prior years			IAS 12 p80 (b)
- deferred tax expense/(income) resulting from changes in tax rates			IAS 12 p81 d
Tax charge/(credit)			
Effective rate of tax			IAS 12 p86

The increase/decrease was caused by……………………………………………………………….

The tax charge above is analysed as follows:

	2015 Shs	2014 Shs	
Tax charged to:			IAS 12 p81 (a+b)
- profit or loss			
- other comprehensive income			
- equity			

The effective rate of tax for current and prior period and the reasons for the change between the two years is a mandatory requirement by IAS 12 - para 81 (d).

Tax losses expire as follows:

	Shs	Expiry
- tax losses arising in 2011		31 December 2021
- tax losses arising in 2012		31 December 2022
- tax losses arising in 2013		31 December 2022
- tax losses arising in 2014		31 December 2024
- tax losses arising in 2015		31 December 2025

NOTES (CONTINUED)

6. **Cash and cash equivalents**	**2015 Shs**	**2014 Shs**	
Cash at bank and in hand			
Short term bank deposits			

The weighted average effective interest rate on short-term bank deposits at year-end was ….% (2014: ….%).

For the purpose of the statement cash flow, the year end cash and cash equivalents comprise the following: IAS7. p45

	2015 Shs	**2014 Shs**	
Cash and bank balances			IAS7p.8
Financial assets maturing within 91 days (Note 25)			
Bank overdraft (Note 12)			
Less: Short term bank deposits held under lien (restricted cash balances)			

Any restrictions on funds should not form part of cash and cash equivalents as per IAS 7.

Short term bank deposits amounting to Shs. … were placed under lien.

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 limited.

As at 31 December 2015 bank balances amounting to Shs. ____________ are held with financial institutions that are under statutory management

7. **Receivables and prepayments**	**2015 Shs**	**2014 Shs**
Prepayments		
Other receivables		
Receivables from related parties (Note 33 (vi))		

Movement in impairment provisions			IFRS 7.20(e)
At start of year			
Additions			
Recoveries/write offs			
At end of year			

NOTES (CONTINUED)

7. **Receivables and prepayments (continued)**

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

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

Sacco society are prohibited from foreign trade operation refer to (SSA 15 (a))

Receivables that are aged past 90 days are considered past due.

The above period will differ from entity to entity

As of 31 December 2015, receivables amounting to Shs…...(2014: …….) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows: IFRS 7.37(a)

	2015 Shs	2014 Shs
(Anything above credit period and analyse accordingly as applicable)		
3 to 12 months		
Over 12 months		

8. **Loans and advances**

(i) Normal loans to members

At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		

Movement in impairment provisions

At start of year		
Impairment loss for the year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-

NOTES (CONTINUED)

8. **Loans and advances (continued)**	**2015 Shs**	**2014 Shs**
(ii) Business and Crop advances		
At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		-
Movement in impairment provisions		
At start of year		
Impairment loss for the year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-
(iii) School fees loans		
At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		-
Movement in impairment provisions		
At start of year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-
(iv) Emergency loans		
At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		-

NOTES (CONTINUED)

8. **Loans and advances (continued)**	**2015 Shs**	**2014 Shs**
(iv) Emergency loans (continued)		
Movement in impairment provisions		
At start of year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year		-
(v) Premier loans		
At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		-
Movement in impairment provisions		
At start of year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-
(vi) Other loans		
At the start of the year		
Net increase during the year		
Provision for doubtful debt		
At year end		-
Movement in impairment provisions		
At start of year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-

Total movement in impairment provisions IFRS 7 34(a)

At start of year		
-Charge for the year		
-Recoveries in the year		
-Write-off		
At end of year	-	-

NOTES (CONTINUED)

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

The provisions for doubtful debts include the following:-

	Provision as per SASRA regulations	Provision as per IFRS	Transfer to/(from) statutory loan reserves
(i) Normal loans to members			
(ii) Business and crop advances			
(iii) School fees loans			
(iv) Emergency loans			
(v) Premier loans			
(vi) Other loans			
	-	-	-

Breakdown of SASRA regulatory provision:	**2015 Shs**	**2014 Shs**	SSAD 44(1)
0 Days (Performing - 1% Provision)			
1- 30 Days (Watch - 5% Provision)			
31 - 180 Days (Substandard - 25% Provision)			
181- 360 Days (Doubtful - 50% Provision)			
Over 361 Days or 12 Instalments over due (Loss Account - 100%)			
	-	-	

The Society has a loanguard policy on all classes of loans issued by ....in which there is compensation of insured loan balance in the event of death or total permanent disability of a member.

The Society was given authority by The Sacco Societies Reglatory Authority (SASRA) ....the option not to make 1% loan loss provision (general risk allowance) on the performing loans until otherwise advised by the authority. The society has adopted the option of not providing for 1% on the performing loans.

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

The effective interest rate on loans …..% (2014: …..%)

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

Sacco society are prohibited from foreign trade operation refer to (SSAD 15 (a))

Loans to insiders SAS- 42(a)

Insiders are deemed to be employees, members of supervisory commitees and directors of the sacco. The following loans were granted to insiders

	2015 Shs	**2014 Shs**
Total loans advance during the year		
Total loans outstanding at the end of the year:		
Loan to key management		
Loans to directors		
Loan to supervisory commitee members		
Loan to other employees		
Total loans		

NOTES (CONTINUED)

9. **Other financial assets**

Financial assets comprise the following:	2015 Shs	2014 Shs
a) Fair value through profit or loss financial assets		
At start of year		
Additions		
Disposals		
Fair value gains/(losses)		
Interest		
At end of year		

Below is a summary of the financial assets held at fair value through profit and loss

Society A		
Society B		
Others		

b) Available for sale

a) Investment in quoted shares		
At start of year		
Additions		
Disposals		
Fair value gains/(losses)		
Interest		
At end of year		

Below is a summary of the available for sale financial assets held in quoted companies

Society A		
Society B		
Others		

a) Investment in non-quoted shares		
At start of year		
Additions		
Disposals		
Fair value gains/(losses)		
Interest		
At end of year		

Below is a summary of the available for sale financial assets held in non-quoted companies

Society A		
Society B		
Others		

NOTES (CONTINUED)

9. **Other financial assets (continued)**

	2015 Shs	2014 Shs
c) **Held-to-maturity**		
At start of year		
Additions		
Liquidation/disposal		
Amortisation		
Interest		
At end of year		
Held-to-maturity investments can be analysed as follows:		
Maturing within 91 days (Note…..)		
Maturing after 91 days		
Total other financial assets		

During the year the society transferred gains/(losses) amounting to Shs……. (2014: Shs………) from equity into retained earnings Included in this amount is a loss of Shs……. (2014: Shs…….) relating to impairment of 'Available-for-sale' financial assets.

The fair values of the unquoted shares are based on discounted cash flows using a rate based on the market interest rate and risk premium specific to the unquoted shares. 2015:__% (2014 :……%).

The above should be amended depending upon the valuation technique for investment held.

The categorisation of assets carried at fair value.

IFRS 13. 93

Year ended 31 December 2015	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Available-for-sale				
Held-to-maturity				
Fair value through profit or loss				

Year ended 31 December 2014	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Loans and receivables				
Available-for-sale				
Held-to-maturity				
Fair value through profit or loss				

NOTES (CONTINUED)

9. **Other financial assets (continued)**

The fair value of financial statements included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a accepted pricing models based on a discounted cash flow analysis with the more significant inputs being the discount rate that reflects the credit risk of counter parties. IFRS 13.97 IFRS 13.93 (d)

Credit risk primarily arises from the changes in the market value and the financial stability of the respective quoted companies, issuers of commercial bonds and investment funds. IFRS 7.36(a)

Management monitors the credit quality of financial assets by: IFRS 7.33
- discussion at the management and board meetings;
- reference to external historical information available;
- discussions with the society's investment advisors;

The maximum exposure to credit risk as at reporting date is the carrying value of the financial assets as disclosed above. IFRS 7.9(a)

None of the financial assets are impaired.

Additional notes for held to maturity financial assets (tailor as necessary):

The society has not reclassified any held to maturity financial assets measured at amortised cost to fair value during the year.

If any reclassifications have been done, then the amounts, including comparatives must be disclosed.

There were no gains or losses arising from the disposal of held to maturity financial assets during the years ending 31 December 2014 and 2013 as all these were disposed off at their redemption date.

If any disposals were made, then the amount of gains/losses, including comparatives must be disclosed

Reconciliation of level 3 fair value measurements

	2015 Shs	**2014 Shs**
Opening balance		
Total gains or losses:		
- in profit or loss		
- in other comprehensive income		
Reclassification of remaining interest in E Plus Limited from		
Purchases		
Issues		
Disposals/settlements		
Transfers out of level 3		
Closing balance		

The only financial liabilities subsequently measured at fair value on level 3 fair value measurement represent contingent consideration relating to the acquisition of GHI Limited. No gain or loss for the year relating to this contingent consideration has been recognised in profit or loss.

NOTES (CONTINUED)

10. **Inventories**	**2015 Shs**	**2014 Shs**	
			IAS 2.36(b)
Consumables			
Less: impairment provisions			

11. **Investment property**	**2015 Shs**	**2014 Shs**	
Fair value model- This heading should not be included			IAS. 40p76
At start of year			
Transfers from/(to) property, plant and equipment			
Fair value gains/(losses)			
Additions			
Disposals			
At end of year			

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out by (*name of valuer)* an independent professional valuer (or one employed by the society if this is the case) with recent experience in the location and category of the investment property being valued. IAS. 40p75(e) IAS. 40p75(d)

(If there has been no such valuation, that fact shall be disclosed.)

OR

Cost model- The heading should not be included

Year ended 31 December 2015	**Freehold land Shs**	**Buildings Shs**	**Total Shs**	IAS 40. p79
Cost				
At start of year				
Transfers from/(to) property, plant and equipment (Note 17)				
Additions				
Disposals				
At end of year				
Depreciation				
At start of year				
Charge for the year				
At end of year				
Net book value				
Fair value				

11. **Investment property (continued)**

	Freehold land Shs	Buildings Shs	Total Shs
Year ended 31 December 2014			
Cost			
At start of year			
Transfers from/(to) property, plant and equipment			
Additions			
Disposals			
At end of year			
Depreciation			
At start of year			
Charge for the year			
At end of year			
Net book value			

Fair value
The following amounts are included under profit or loss in respect of the investment properties:

	2015 Shs	2014 Shs
Rental income		
Less: direct rental expenses arising from investment properties that generate rental income		
Less: direct rental expenses arising from investment properties that do not generate rental income		
Net rental income/(loss) (Note 2)		

IAS 40. p75(f)

Impairment losses amounting to Shs. ___ have been recognised in profit or loss under establishment expenses. IAS 36. p126 (a)

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under establishment expenses. IAS 36. p126 (b)

The impairment loss/reversal of previously recognised impairment losses were as a result of______________ . The value used in determining the impairment loss/reversal is the value in use/fair value less costs to sell. A discount rate of __% was used in the calculation of the value in use. IAS 36. p130

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

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

NOTES (CONTINUED)

12. **Prepaid operating lease rentals**	**2015 Shs**	**2014 Shs**
Cost		
At start of year		
Additions		
Acquisition through business combination (Note …)		
Translation reserve		
Transfer to property, plant and equipment (Note 16)		
Disposals		
At end of year		
Amortisation		
At start of year		
On disposals		
Acquisition through business combination (Note …)		
Translation reserve		
Transfer to property, plant and equipment (Note 16)		
Charge for the year		
At end of year		
Net book value		

NOTES (CONTINUED)

13. **Property and equipment**

Year ended 31 December 2015

	Freehold land Shs	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Office equipment Shs	Computer equipment Shs	Capital work-in-progress Shs	Total Shs	IAS 16 p73 (d), (e)
Cost or valuation										
At start of year										
Additions										
Disposals										
Transfer to disposal group - classified as held for sale (Note 24)										
Translation adjustment										
Acquisition through business combination										
Surplus on revaluation										
At end of year										
Comprising										
Cost										
Valuation										
Depreciation										
At start of year										
Disposals										
Reversal of accumulated depreciation on revaluation										
Transfer to disposal group - classified as held for sale (Note 24)										
Translation adjustment										
Acquisition through business combination										
Charge for the year										
At end of year										
Net book value										

NOTES (CONTINUED)

13. **Property and equipment (continued)**

Year ended 31 December 2014

	Freehold land Shs	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Office equipment Shs	Computer equipment Shs	Capital work-in-progress Shs	Total Shs
Cost or valuation									
At start of year									
Additions									
Disposals									
Transfer to disposal group - classified as held for sale (Note 24)									
Translation adjustment									
Acquisition through business combination									
Surplus on revaluation									
At end of year									
Comprising									
Cost									
Valuation									
Depreciation									
At start of year									
Disposals									
Reversal of accumulated depreciation on revaluation									
Transfer to disposal group - classified as held for sale (Note 24)									
Translation adjustment									
Acquisition through business combination									
Charge for the year									
At end of year									
Net book value									

IAS 16 p73 (d), (e)

The ratio of land and building to total assets exceed the miniumun of 5% while the overall ratio of property and equipment over total assets is in excess of 10% of the total assets. SSAD- 48

The above limit has been waived by SASRA after succesfully demonstrating the need to raise the limit and the waiver request granted.

13. **Property and equipment (continued)**

The ongoing capital work-in-progress relates to _________________________.

Depreciation expense has been charged in profit or loss was Shs..........(2014: Shs. ....) in establishment expenses.

	2015 Shs	2014 Shs	IAS 16 73(e) (vii)
Cost of sales			
Selling and distribution expenses			
Establishment expenses			
Total			

The disclosure on impairment is only needed if there is an impairment loss and there is no need to mention that there is NO impairment loss. — IAS 36. p126 (a)

Impairment losses amounting to Shs. ___ (2014:Shs….) have been recognised in profit or loss under establishment expenses.

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under establishment expenses. — IAS 36. p126 (b)

Impairment losses on revalued assets amounting to Shs. ___ have been recognised in other comprehensive income. — IAS 36. p126 (c)

Impairment losses on revalued assets previously recognised amounting to Shs. ___ have been recognised in the statement of changes in equity. — IAS 36. p126 (d)

The impairment loss/reversal of previously recognised impairment losses were as a result of______________ . The value used in determining the impairment loss/reversal is the value in use/fair value less costs to sell. A discount rate of __% was used in the calculation of the value in use. — IAS 36. p130

If the freehold land and buildings were stated on the historical cost basis, the amounts would be as follows: — IAS 16. p77 (e)

	Other assets Shs	Freehold land Shs	Buildings Shs	Total Shs
Year ended 31 December 2015				
Cost				
Accumulated depreciation				
Net book value				
Year ended 31 December 2014				
Cost				
Accumulated depreciation				
Net book value				

NOTES (CONTINUED)

13. **Property and equipment (continued)**

Leasehold/freehold land and buildings amounting to Shs._________ have been pledged as security against borrowings as disclosed in Note 12. IAS 16. p74 (a)

Freehold land and buildings were professionally valued on (*date of valuation) by (name of* independent registered valuer) on the basis of open market value for freehold land and buildings. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to other comprehensive income. IAS 16. p77(a) to (d)

In determining the valuations for land and buildings, the valuer refers to current market conditions including recent sales transactions of similar properties - assuming the highest and best use of the properties. For plant and machinery, current replacement cost adjusted for the depreciation factor of the existing assets is used. There has been no change in the valuation technique used during the year compared to prior periods.

The fair valuation of property, plant and equipment is considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets and replacement costs for plant & machinery. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs. There were no transfers between level 1, 2 or 3 fair values during the year.

The table above presents the changes in the carrying value of the property, plant and equipment arising from these fair valuation assessments.

During the year, the society has capitalised borrowing costs amounting to ………. (2013. Shs .) on qualifying assets. Borrowing costs were capitalised at a weighted average rate of its general borrowings of Shs ……. IAS 23. 26(a)

IAS 7(e) (i)

	2015 Shs	2014 Shs
Reconciliation of additions during the year		
Additions acquired by cash payments		
Additions acquired through borrowings		

OR

All the additions made during the year were made through cash payments.

Included in property and equipment are the following assets where the society is a lessee under a finance lease: IAS 16 74(a)

	Motor vehicles Shs	Computer equipment Shs	Total Shs
Cost			
Accumulated depreciation			
Net book value			

The society leases various vehicles and machinery under non-cancellable finance lease arrangements. The lease terms are between … to … years and the ownership of these assets lies within the society. IAS 16 79(a) VD

Property and equipment with net book value amounting to Shs. ____ is temporarily idle. Property and equipment with net book value amounting to Shs. ___ has been retired from active use and has not been classified as held for sale. IAS 16 79(c) VD

The gross carrying amount of fully depreciated property and equipment amounted to been Shs._________. IAS 16 79(b) VD

The fair value of the various classes of property and equipment are as follows: IAS 16. p79 VD

	2015 Shs	2014 Shs
Buildings		
Motor vehicles		

NOTES (CONTINUED)

14. **Intangible assets**

Year ended 31 December 2015	**Software costs Shs**	**Patents and trademarks Shs**	**Total Shs**	IAS 38. p118(c)
Cost				
At start of year				
Additions				
Translation reserve				
Transfer to disposal group classified as held for sale (Note 23)				
At end of year				
Amortisation				
At start of year				
Charge for the year				
Transfer to disposal group classified as held for sale (Note 2)				
At end of year				
Net book value				

Year ended 31 December 2014	**Software costs Shs**	**Patents and trademarks Shs**	**Total Shs**
Cost			
At start of year			
Additions			
Transfer to disposal group classified as held for sale (Note 23)			
At end of year			
Amortisation			
At start of year			
Charge for the year			
Transfer to disposal group classified as held for sale (Note 23)			
At end of year			
Net book value			

Intangible assets amounting to Shs. ________ have been pledged as security against bank borrowings. IAS 38. p122(d)

Intangible assets with a cost of Shs.__________ have been fully amortised. IAS 38. PDV 128(a)

Other intangible assets include internally generated capitalised software development costs and other costs.

Impairment losses amounting to Shs. ___ have been recognised in profit or loss under establishment expenses. IAS 36. p126 (a)

NOTES (CONTINUED)

14. **Intangible assets (continued)**

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under establishment expenses. IAS 36. p126 (b)

The impairment loss/reversal of previously recognised impairment losses were as a result of______________ . The value used in determining the impairment loss/reversal is the value in use/fair value less costs to sell. A discount rate of __% was used in the calculation of the value in use. IAS 36. p130

(In the case of goodwill, separate disclosures are required as per IAS 36, IAS 38 and IFRS 3).

The society's goodwill asset is considered to have an indefinite useful life due to _____. The carrying value of the asset amounts to Shs.__________.

IAS 38. 128(B) VD

The society has not recognised an internally generated trademark of which the estimated market value based on the directors judgement amounts to Shs.__________ as this does not meet the criteria of…..

Intangible assets transferred to the disposal group classified as held-for-sale amounts to Shs….. and relates to assets that are used by segment. See note 26 for further details regarding the disposal group held for sale IAS 38. 118(e)(ii)

15. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement on the deferred tax account is as follows:

	2015 Shs	**2014 Shs**	
At start of year			
Prior period adjustments:			
- reversal of deferred tax on revaluation			IAS 12. P80b
			IAS 12. P80b,f
As restated			
Translation adjustment			
Charge/(credit) to profit or loss (Note 6)			IAS 12. P80c
Charge/(credit) to other comprehensive income (Note 4)			IAS 12. p81 (a)
At end of year			

Deferred tax (assets) and liabilities, deferred tax charge/(credit) to other comprehensive income and deferred tax charge/(credit) to equity, deferred tax charge/(credit) in profit or loss are attributable to the following items: IAS 12. p81 (g)

Deferred tax liabilities	**At start of year Shs**	**Charge/ (credit) to profit or loss Shs**	**Charge/(credit) to other comprehensive income Shs**	**At end of year Shs**
Property, plant and equipment				
- accelerated tax depreciation				
- revaluation				
Unrealised exchange differences				
Other timing differences				

NOTES (CONTINUED)

15. **Deferred tax (continued)**

Deferred tax assets	**At start of year Shs**	**Charge/ (credit) to profit or loss Shs**	**Charge/(credit) to other comprehensive income Shs**	**At end of year Shs**
Unrealised exchange differences				
Provisions				
Retirement benefit obligations				
Tax losses carried forward				
Other timing differences				
Net deferred tax liability/(asset)				

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses against. Deferred tax assets amounting to Shs. …. (2013: Shs. ….) in respect of tax losses carried forward amounting to Shs…..(2013: Shs……) that can be carried forward against future taxable profits have not been recognised. IAS 12. p82 IAS 12. p81 (e)

If the whole of the retained earnings at the reporting date were to be distributed, a further Kshs _____________ (2013: Kshs _______) of tax would be payable.

No deferred tax liability is recognised as temporary differences of Shs. .... relating to unremitted earnings of subsidiaries, as the group is able to control the timing of reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

16. **Members' deposits**

	2015 Shs	**2014 Shs**
a) Non-withdrawal members deposits		
At the start of the year		
Contributions during the year		
Withdrawals/refunds during the year		
Total		
b) Members savings accounts		
i) FOSA savings account		
At the start of the year		
Deposits during the year		
Withdrawals/refunds during the year		
Total		
i) Fixed deposits account		
At the start of the year		
Deposits during the year		
Withdrawals/refunds during the year		
Total members savings accounts		
Total Member savings		

SSA- 42(a)

The following members hold more than 25% of total members deposits	2015	2014
Name	%	%
Member 1		
Member 2		
Others		

NOTES (CONTINUED)

17. **Borrowings**

	2015	**2014**	
	Shs	**Shs**	
The borrowings are made up as follows:			IFRS7.p8 (f)
Bank overdraft (Note 29)			
Bank borrowings			
Other borrowings			
Finance leases			
Total borrowings			

The borrowings are secured by the following:
a) ………………….. IFRS7.p14
b) …………………..
c) …………………..

The borrowing facilities expiring within one year are subject to review at various dates during the next financial year. IFRS7.p31

The exposure of the society's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows: IFRS7.p31

The following borrowing were higher than the core-capital: SSA- 42(b)

	Amount	Core capital	Excess
	Shs	Shs	Shs
Borrowing from Bank A Ltd	....	....	....

The following borrowing were in excess of 25% of the total assets SSAD- 35.1

	Amount	Tota assets	Excess
	Shs	Shs	Shs
Borrowing from Bank A Ltd	....	....	....

The above limit has been waived by SASRA after succesfully demonstrating the need to raise the limit and the waiver request granted.

or

There are no borrowing exceeding the core capital nor are there any borrowings excceding 25% of the total assets.

	2015	**2014**	
	Shs	**Shs**	
Non interest bearing			IFRS7.p31
6 months or less			
6 - 12 months			
1 - 5 years			
Over 5 years			

Weighted average effective interest rates at the reporting date were:	**2015** **%**	**2014** **%**	IFRS7.p31 IFRS7.p7
Bank borrowings			
Bank overdraft			
Borrowings from related parties			
Finance lease liabilities			
Other borrowings			

The average interest charge to members is at least 2% higher than than that charged by external borrowers. SSAD- 35.4

NOTES (CONTINUED)

17. **Borrowings (continued)**

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. IFRS7p29(a)

OR

In the opinion of the directors, the carrying amounts of short-term borrowings and lease obligations approximate to their fair value. IFRS7p25

OR

In the opinion of the directors, it is impracticable to assign fair values to the society's long-term liabilities due to inability to forecast interest rate and foreign exchange rate changes. IAS1p.7 IFRS7p29(a)

The carrying amounts of the society's borrowings are denominated entirely in Kenya Shillings. IFRS7p31 IFRS7p34(c)

Maturity based on the repayment structure of non-current borrowings (excluding finance lease liabilities) is as follows: IFRS7p.39

Between 1 and 2 years			
Between 2 and 5 years			
Over 5 years			

Gross finance lease liabilities - minimum lease payments			IFRS7p.31 IAS17p.31(b)
Not later than 1 year			
Later than 1 year and not later than 5 years			
Later than 5 years			
Total gross finance leases			
Future interest expense on finance leases			
Present value of finance leases			

Present value of finance leases - minimum lease payments			IAS17p.31(b)
Not later than 1 year			
Later than 1 year and not later than 5 years			
Later than 5 years			

During the year, the society was in default of covenants under borrowing agreements by …………… and the details are as below:

i) ……………………………………..
ii) ……………………………………..

NOTES (CONTINUED)

17. **Borrowings (continued)**

Borrowings from this institution amounted to Shs…… (2014: Shs………) as at the reporting date
Interest payable of Shs. …. (2014: Shs….) remained unpaid as at 31 December 2015.
These amounts have been paid by …and the management expects to meet all/not meet all contractual obligations in the future.

* Based on the current changes in Kenya, certain borrowings may be restructured. Disclosures for these should be made in the financial statements.

Undrawn facilities as at the reporting date were as follows:	2015 Shs	2014 Shs	IFRS7. p50(a)
Bank borrowings			
Bank overdraft			
Borrowings from related parties			
Finance lease liabilities			
Other borrowings			

The sacco leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between ….. and ….. years, and ownership of the assets lie within the sacco.

18. **Other payables**

	2015 Shs	2014 Shs	
Trade payables			
Accruals			
Other payables			
Payable to related parties (Note 33 (vii))			IAS24. p17
Total other payables			

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair value.
The maturity analysis of the society's trade and other payables is as follows: IFRS 7.39(b

Year ended 31 December 2015

	0 to 1 month Shs	2 to 3 months Shs	4 to 12 months Shs	Total Shs
Accruals				
Other payables				
Payable to related parties				

NOTES (CONTINUED)

18. **Other payables (continued)**

Year ended 31 December 2014

	0 to 1 Shs	2 to 3 Shs	4 to 12 Shs	Total Shs
Accruals				
Other payables				
Payable to related parties				
Amounts due to directors				

N.B. Unless it can be objectively shown that the payables do not fall due until later, most will fall in the first column.

OR

	2015 Shs	2014 Shs
Within three months		
Three to twelve months		
Between one and two years		
Over two years		

19. **Tax Payable**

	2015 Shs	2014 Shs
At start of the year		
Tax change for the year (Note 5)		
Tax paid for the year		
At end of the year		

20. **Provisions for liabilities**

	Gratuity Shs	Others Shs	Total Shs	
				IAS37. p84(a-e)
At start of year				
Unused amounts reversed				
Additional provisions during the year				
At end of year				
Analysed as				
- current portion				
- non-current portion				

A re-imbursement of Shs. __________ has been recognised in profit or loss is expected to be received from __________ towards the provision. IAS 37 p85

. **Provision for interest for members deposits**

	2015 Shs	2014 Shs
At the start of the year		
Provisions for the year		
Interest capitalised		
Payments during the year		
At end of year		

The directors recommended a provision of ....% (2014:......%) interest on members deposits.

NOTES (CONTINUED)

21 **Other accrued liabilities** ***(e.g. provision for outstanding leave days)***

	2015 Shs	2014 Shs	
At start of year			IAS37. p84(a)-(e)
Charge/(credit) to profit or loss (Note 5)			
At end of year			

22. **Retirement benefit obligations**

The society operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to __ days of their basic annual salary for each successfully completed year of service.

The amounts recognised in the statement of financial position are determined as follows:

	2015 Shs	2014 Shs	
Present value of funded obligations			IAS 19-120A(f)
Fair value of scheme assets			
Present value of unfunded obligations /(over-funding)			
Liability/asset in the balance sheet			

The movement in the present value of the defined benefit obligation was as follows:	2015 Shs	2014 Shs	IAS 19-120A(c)
At 1 January			
Current service cost			
Interest cost			
Actuarial losses/(gains)			
Benefits paid			
Past service costs			
At 31 December			

The movement in the present value of plan assets is as follows: IAS 19-120A(e)

	2015 Shs	2014 Shs
At 1 January		
Expected return on plan assets		
Actuarial losses/(gains)		
Employer contributions		
Employee contributions		
Benefits paid		
At 31 December		

NOTES (CONTINUED)

22. **Retirement benefit obligations (continued)**

The major categories of planned assets and the expected rate of return at the reporting date were as follows:

Plan assets comprise: IAS 19-120A(j)

	2015 Fair value Shs	2015 Expected return %	2014 Fair value Shs	2014 Expected return % %
Equity investments				
Debt securities				
Investment property				
Other				
Total				

Amounts recognised in the profit or loss for the year are as follows: IAS 19-120A(q)

	2015 Shs	2014 Shs
Current service cost		
Interest cost		
Expected return on scheme assets		
Past service costs		
Net charge for the year included in employee expense (Note 5)		

IAS 19-120A(g)

Of the total charge, Shs………(2014: Shs………..) is included in cost of sales, and Shs……… (2014: Shs………) in administrative expenses. IAS 19-120A(g)

Amounts recognised in other comprehensive income for the year are as follows: IAS 19 p135b

	2015 Shs	2014 Shs
Net return on scheme assets		
Actuarial gains and losses arising from		
- demographic assumptions		
- actuarial assumptions		

The principal actuarial assumptions used were as follows: IAS 19-120A(g)

	2015 %	2014 %
Discount rate		
Expected return on scheme assets		
Future salary increases		
Future pension increases		

The following table analyses the history of experience adjustments as at 31 December 2015 IAS 19-120A(p)

	Shs	Shs	Shs	Shs	Shs
Present value of the defined benefit					
Fair value of the plan assets					
Surplus/(deficit) at 31 December					
Experience adjustments on plan liabilities					
Experience adjustments on plan assets					

NOTES (CONTINUED)

23. **Dividends** SSAD- 21.4/ 21.5

The directors propose a final dividend of ....% per share (2014: …… % per share) IAS1. p107
amounting to a total of Shs … (2014: Shs ….). IAS1. p137(a)

Dividends can only be paid out from net surplus after statutory reserves. Aslo can only be paid if necessary capital adequacy and any other requirements are complied. SSAD- 21.4

24. **Investment shares**

	No of shares	Shs	
			IAS1. p79(a)
At start of year			
Bonus issue of shares from retained earnings			
Interest/divident capitalised			
Issue of share capital			
At end of year			

The minimum number of shares for a members is ....shares with a par value of Shs........ SSAD- 21.1

On ……………2015, a bonus issue of one share for every …. c IAS1. p79(a)
capitalising Shs ………. from retained earnings. A total of ……….shares were issued.

On ……………2015, a bonus issue of one share for every ……. shares held was made by IAS1. p79(a)
capitalising Shs ………. from retained earnings/proposed divident account. A total of ……….shares were issued.

The following members hold more than 25% of the share capital SSAD- 42(a)

Name	Shares held	%
Member 1	....	
Member 2	....	
Member 3	....	
Others	....	

or
There are no members who hold more than 25% share capital.

or
The following are the members with the largest shareholding as at 31st December 2015

Name	Shares held	%
Member 1	....	
Member 2	....	
Member 3	....	
Others	....	

NOTES (CONTINUED)

25. **Reserves**

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

	2015 Shs	2014 Shs	
i) **Statutory reserves**			SSAD Form 1 (1.1.2)
At start of the year			
Transfer to statutory reserve			
At the end of the year			
ii) **Regulated reserves**			SSAD 44
At start of the year			
Transfer to loan/(from) loss reserve account			
At the end of the year			

26. **Related party transactions and balances**

IAS1. p138(c)

The following transactions were carried out with related parties:

(i) Key management personnel compensation			IAS24. p16
Short term employee benefits			
Post employment benefits			IAS19. p47
Other long term benefits			
Termination benefits			
Share based payments			
	-	-	
(ii) Loans to directors			
At the start of the year			
Disbursements			
Payments			
Balance		-	

(iii) Loans/advances to related parties

Loans/advances to related parties can be analysed as follows:	2015 Shs	2014 Shs
Directors		
Supervisory commitees		
Key management personnel		

The advances to related parties are subject to interest of between ....% and __ % p.a and are secured. IAS24.p17.(b)

NOTES (CONTINUED)

26. **Related party transactions and balances (continued)**

(iii) Receivable from related parties

At the start of the year			
Disbursements			
Payments			
Balance			

(iv) Payable to related parties

At the start of the year	-	-
Write off/Payments	-	-
Balance	-	-

IAS 24 now requires:

- *to disclose whether related party balances are secured/unsecured and the nature of the consideration to be provided in settlement.*
- *the terms of the related party transactions are equivalent to those that prevail in arm's length transactions ONLY if such terms can be substantiated.*
- *the expense recognised during the period in respect of bad and doubtful debts due from related parties*
- *disclosures about the settlement of liabilities on behalf of the entity or on behalf of another party.*
- *Also need to explain the nature of the relationship.*
- *Transactions with entities owned or controlled by key management compensation should also be disclosed. Refer to IAS 24p23*

ix) **Commitments and contingencies**

The society has guaranteed a loan given to ………………….. (a related society by virtue of common shareholding and directorship). The balance of loan outstanding as at 31 December 2015 is Shs………… (2014: Shs………..). IAS24. p20(h)

No provisions for impairment losses have been required in 2015 (2014: Shs……….) for related party balances. IAS24. p17.(c)

OR

During the year, the society provided impairment losses amounting to Shs… (2014: Shs………) relating to irrecoverable related party balances. IAS24. p17.(c)

27. **Risk management objectives and policies**

An entity need not provide a specific disclosure required by an IFRS if the information is not material. IAS1. p31

Financial risk management

The societie's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. IFRS7. p31

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.

(a) **Market risk**

- *Interest rate risk*

The society's exposure to interest rate risk arises from borrowings/interest bearing creditors and interest bearing debtors/advances/financial assets. IFRS7. p33(a) IFRS7. p33(b)

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. IFRS7. p22(c)

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 1percentage point, the effect would have been the opposite. IFRS7. p40 IFRS7 IGp.36

	2015	**2014**
	Shs	**Shs**
Effect on profit (decrease)/increase		

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

OR

At 31 December 2015, if interest rates at that date had been 1 percentage point *(that is say 10% to 9% per annum)* lower with all other variables held constant, post-tax profit for the year would have been Shs. ____ (2014: Shs.____) higher, arising mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been Shs. ____ (2014: Shs. ____) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale. If interest rates had been 1 percentage point higher, with all other variables held constant, post-tax profit would have been Shs. _____ (2014: Shs. _____) lower, arising mainly as a result of higher interest expense on variable borrowings, and other components of equity would have been Shs. _____ (2014: Shs. ______) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale. Profit is more sensitive to interest rate decreases than increases because of __________________. The sensitivity is lower in 2015 than in 2014 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured. *(As applicable)*

A 1% sensitivity rate is being used when reporting interest risk internally to key management personnel and represents managements assessment of the reasonably possible change in interest rates. IFRS 7p 41

- *Price risk*

The group is exposed to equity securities price risk because of investments held by the group and classified on the statement of financial position either as *Available-for-sale, fair value through profit or loss and held for trading.(if valued using market prices)* IFRS 7.33(a) IFRS 7.33(b)
The group is not exposed to commodity price risk (as applicable).
To manage its price risk arising from ______________________, the group diversifies its portfolio *(as applicable)* . Diversification of the portfolio is done in accordance with the limits set by the group.
Example:

The group'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 group'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: IFRS 7.40 IFRS7. IG36

	Impact on profit for the year		**Impact on other comprehensive income**	
Index	**2015 Shs**	**2014 Shs**	**2015 Shs**	**2014 Shs**
NSE	xx	xx	xx	xx

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. IFRS 7p 41

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

NOTES (CONTINUED)

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

(b) **Credit risk** IFRS7IG23,25 (b)

Credit risk is the risk of suffering financial loss, should any of the society's member fail to fulfil their contractual obligations to the society. Credit risk arises mainly from member's loans and advances

The society is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.
Credit risk is the single largest risk for the society's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk commitee, which reports to the Board of Directors and head of each business unit regularly.

(i) Credit risk measurement

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

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. 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. 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— SSAD 41

(1) **Performing loans**, being loans which are well documented and performing according to contractual terms;
(2) **Watch loans**, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding;
(3) **Substandard 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 instalments have remained outstanding;
(4) **Doubtful loans**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve instalments have remained outstanding; and

NOTES (CONTINUED)

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

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

(i) Credit risk measurement (continued)

(5) Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding. SSAD 41

Problem credit management and provisioning

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

A primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. An account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Society follows industry standards, measuring delinquency as of 1, 30, 180, 360 and above 361 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes. SSAD 41

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

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

The Society writes off loans and advances net of any related allowances for impairment losses when it determines that the loans are uncollectable and securities unrealisable. This determination is reached after accessing objective evidence or occurrence of significant changes in the borrower or issuer's financial position such that they are no longer able to repay the obligation, or that proceeds from the sale of collateral will not be sufficient to pay back the entire exposure. This is done after exhausting all other means including litigation. SSAD 45

SASRA describes circumstances underwhich a loan can be treated as a write off	

Loans and advances that are neither past due nor impaired

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

NOTES (CONTINUED)

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

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

Past due but not impaired

This category includes exposures that are between 1 – 30 days past due, where losses have been incurred but have not been identified. These exposures are graded as category 2 in line with our internal guidelines and those issued by banking regulators. A collective impairment allowance is made to cover losses which have been incurred but have not yet been identified.

Impaired loans and advances

Impaired loans and advances are those which the Society determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan securities agreement(s). These loans are graded between categories 3 (31-180 days), 4(181 -360 days) and 5 (over 360 days) using the Society's internal credit rating system. These clients, under guidelines issued by the SASRA in the regions we operate in, are termed as non-performing loans. The Society establishes a specific allowance for impairment losses that represents the estimate of losses that will be incurred in its loan portfolio. SSAD 41

The society exposure to credit risk is analysed as follows:

i) **Collateral**

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 fulfil 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.

ii) **Concentration of risks of financial assets with credit risk exposure**

	2015		**2014**	
	Loans and advances to societys	**Loans and advances to customers**	**Loans and advances to societys**	**Loans and advances to customers**
Neither past due nor impaired				
Past due but not impaired				
Individually impaired				
Gross				
Less: allowance for impairment				
Net				
Portfolio allowance				
Individually impaired				
Total				

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

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

Concentration of risks of financial assets with credit risk exposure (continued)

The credit quality of the portfolio of loans and advances that were neither past due norimpaired can be assessed by reference to the internal rating system adopted by the sacco based on the guidelines provided by the SASRA.

Loans and advances to customers	Normal loans to members	Business and crop advances	School fees loans	Emergency loans	Premier loans	Other loans	Total loans
0 Days (Performing)							
1- 30 Days (Watch)							
31 - 180 Days (Substandard)							
181- 360 Days (Doubtful)							
Over 361 Days (Loss Account)							

Repossessed Collateral

The society obtained assets by taking possession of collateral held as security. The nature and carrying amounts of such assets at the reporting date are as follows:

	2015	2014
Carrying amount	Shs	Shs
Nature of assets		
- Residential property		
- Land		
- Chattels		
- Motor vehicle		

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce theoutstanding indebtedness. Repossessed property is classified within ‘other assets’.

NOTES (CONTINUED)

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

(c) **Liquidity risk**

Cash flow forecasting is performed by the finance department 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 or covenants (where applicable) on any of its borrowing facilities. IFRS 7.34

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. IFRS 7.39(a),(b)

A disclosure of the undrawn facilities is as per Note 12. This is the society's liquidity reserve.

Notes 12 and 30 disclose the maturity analysis of borrowings and trade and other payables.

The table below disclose the undiscounted maturity profile of the society's financial liabilities:

Year ended 31 December 2015 IFRS7IG23,25 (b)

	Interest rate %age	Between 1 - 3months Shs	Between 3months - 1 year Shs	Between 1 - 5 years Shs	More than 5 years Shs	Total Shs
Interest bearing liabilities						
- Member savings						
- Borrowings						
Non-interest bearing liabilities						
- Member savings						
- Borrowings						

(b) **Credit risk**

Year ended 31 December 2014

	Interest rate %age	Between 1 - 3months Shs	Between 3months - 1 year Shs	Between 1 - 5 years Shs	More than 5 years Shs	Total Shs
Interest bearing liabilities						
- Trade and other payables						
- Borrowings						
Non-interest bearing liabilities						
- Trade and other payables						
- Borrowings						

d) Fair value measurements

The 's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The table below shows an analysis of all assets and liabilities for which fair value is measured or disclosed in the financial statements by level of their fair value hierarchy. The fair values are ed into three levels as mentioned in Note 1 of these financials, based on the degree to which the fair value is observable.

NOTES (CONTINUED)

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

d) **Fair value measurements (continued)**

The table below gives information about how the fair values of these financial assets and financial liabilities are determined:

	Level 1 Shs	Level 2 Shs	Level 3 Shs
Year ended 31 December 2014			
Assets			
Available for sale financial assets			
- Other quoted investments			
Liabilities			
- Term loan			

	Level 1 Shs	Level 2 Shs	Level 3 Shs
Year ended 31 December 2013			
Assets			
Available for sale financial assets			
- Other quoted investments			
Liabilities			
- Term loan			

There have been no transfers between levels 1, 2 and 3 in the year.

28. **Capital management** IAS 1.135

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 issued capital, reserves and retained earnings). The directors reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In order to maintain or adjust the capital structure, the society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The society's overall strategy remain unchanged from 2013. IAS 1.135(c)

The gearing/xxx ratios at 31 December 2015 and 2014 were as follows:

	2015 Shs	2014 Shs	
Total borrowings (Note 12)			
Less cash and cash equivalents (Note 29)			
Net debt			
Total equity			IAS1. p135(b)
Gearing ratio			

28. **Capital management (continued)**

Externally imposed capital requirements IAS1. p135(d)

The Sacco's Socities's Act 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; SASD 9
- core capital of not less than ten percent of total assets; SASD 9
- institutional capital of not less than eight percent of total assets; and SASD 9
- core capital of not less than eight percent of total deposits. SASD 9
- maintain fifteen percent of its savings deposits and short term liabilities in liquid assets. SASD 13(2)

The Sacco Societie's Act has issued certain restriction on borrowing. Refer to note 18 on borrowings on the restrictions.

The ratios at 31 December 2014 and 2013 were as follows:	**2015 Shs**	**2014 Shs**
a) **Core capital of not less that Shs 10 million**		
As per statement of financial position		
b) **Core capital of not less than 10% of total assets;**	%	%
As per statement of financial position		
c) **Institutional capital of not less than 8% of total assets**	%	%
As per statement of financial position		
d) **Core capital of not less than 8% of total deposits.**	%	%
As per statement of financial position		
e) **15% of savings deposits and short term liabilities in liquid assets.**	%	%
As per statement of financial position		

The above ratio has exceeded the SASRA requirement due to ______________________________ IAS1. p135(d,e)
The society's bankers are aware of this breach and ___________________________ IAS1. p135(d,e)

NOTES (CONTINUED)

29. **Contingent liabilities**

The society and society had given guarantees amounting to Shs............................… (2014: Shs.............) in respect of third parties in the ordinary course of business from which no material loss is anticipated. IAS37. p86

The society is a defendant in various legal actions. In the opinion of the directors and after taking appropriate legal advice, the outcome of such actions will not give rise to *any significant loss (or loss amounting to Shs ……………)*

(Put note on contingent liabilities that may arise from items such as warranty costs, claims, penalties or possible losses e.g. construction contracts if needed). IAS 18 p36

(Guarantees given by the banker's on behalf of the society (e.g.: guarantees to KPLC) are not contingent liabilities).
not contingent liabilities).

30. **Commitments**

Contractual commitments for the acquisition of property, plant and equipment

At the reporting date these commitments were as follows:

	2015 Shs	2014 Shs	
Property, plant and equipment			IAS. 16p 74(c)
Investment property			
Intangible assets			IAS. 38p 122(e)
Investment property - contractual obligations for repairs and maintenance			

Operating lease commitments - as a lessee IAS 17 p.35

The future minimum lease payments payable under non-cancellable operating leases are as follows:

	2015 Shs	2014 Shs
Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		

The society leases various properties under non-cancellable operating lease agreements. The lease terms are between ___ to ____ years and these are generally renewable at the end of the tenure of the lease. (*For rent).*

The society also leases various items of property, plant and equipment under cancellable operating leases. To terminate this lease the society must give a notice of ___ months. The expenditure to lease this property, plant and equipment amounted to Shs. …. (2014: Shs…) and is included under ________ (indicate heading of expense where included).

NOTES (CONTINUED)

30 **Commitments**

Operating lease commitments - the society as a lessor IAS 17 p.47

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2015 Shs	2014 Shs
Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		

During the year, the society received Shs. …(2014: Shs….) as contingent rent. The society leases property, plant and equipment under various agreements. These agreements expire between____ to ______ years and do not include/include and extension option. IAS 17. p31 (c), (e)

31. **Events after the reporting period**

(This should not be used if there are no events after the year end)

On 15 January 2015, the premises of XYZ Limited were damaged by fire. Insurance claims are in process , the cost of renovation is currently expected to exceed the claim recoverable by Shs…………… IAS 10. p21

If non adjusting events after the reporting period are material, the following disclosures should be made:
- *The date of event*
- *The nature of event*
- *Estimate of its financial effect.*

Disclosure should be made of all material transactions after the year end e.g. ordinary share issues and transfers and borrowings received to finance major capital expansion. IAS 10p21 IAS 10p22(f) IAS 33p71(e)

32. **Incorporation**

__________________Limited is incorporated in Kenya under the Co-operative Societies Act Cap 490 as a limited liability society and is domiciled in Kenya. IAS1. p138(a
AAAAAAAAA

NOTES (CONTINUED)

33. **Period of reporting** IAS1. p36

The financial statements have been prepared for a period of 18 months/9 months as the society began operation on _____________/ceased trading on ____________.

Only to be used where the period of reporting is more or less than 12 months.

34. **Presentation currency**

IAS1. p51
IAS 21 P9,17,18

The financial statements are presented in Kenya Shillings (Shs.)/Kenya Shillings rounded off to the nearest thousand (Shs. '000).

SCHEDULE OF EXPENDITURE

EXPENDITURE	**2015 Shs**	**2014 Shs**
Members Expenses		
Board & Supervisory expenses		
Other govenance expenses		
Total Members Expenses	**-**	**-**
Adminitrative expenses		
Staff Costs		
Salaries		
Staff Training		
Staff gratuity		
Total Staff Costs	**-**	**-**
Other administration expenses:		
Marketing Expenses		
Security Expenses		
ICT expenses		
Printing and stationery		
Audit & supervision -Current		
- Underprovision in prior years		
System implemtation Costs		
Donations & Subscriptions		
Postages and telephones		
Consultancy		
Bank charges		
Suspense write-off		
Legal and professional fees		
Strategic review		
Miscelleneous expenses		
Fringe benefits Tax		
Internal transport		
Deliquent loans provision		
Deliquent loans write off		
Bad debts write-off		
Total other administrative expenses	-	-
Total administrative expenses	-	-

SCHEDULE OF EXPENDITURE (CONTINUED)

	2015 Shs	2014 Shs
Other operating expenses		
Depreciation and amortisation		
Rates and rent		
Amortisation of intangible assets		
Water, fuel and electricity		
Insurance		
Repair and maintenance		
SASRA Levy		
Total other operating expenses	**-**	**-**
Interest expense		
Interest on deposits		
Borrowing costs		
Loan appraisal fees		
Total interest expenses	**-**	**-**