

**ANNUAL REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31ST DECEMBER 2016**

CS/xxxx

ABC SACCO LIMITED

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Tabasamu Sacco Society Information

Board Members	Mrs. Felister Mutisyq	Chairlady
	Mr. Jumq Mwqvitu	Vice Chairman
	Mr. Leonqrd Ruwq	Hon Secretary
	Mr. Evqns Mrisq	Treasurer
	Mr. Rqmqqdhqn Kilqlo	Member
	Mr. Dqudi Digo	Member
	Mr. Mbwqnq Mqtezo	Member
	Mr. Chqrles Mwqniq	Member
	Mrs. Elinq Mqngqle	Member

Supervisory committee	Mr. qbdqllq Mwqjqmqndq	Chairman
	Mr. Joseph Mkqllq	Secretary
	Mr. Mwqlonyq Mwqkuzqniq	Member

Chief Executive Officer	Mr. Geoffrey Sitqti
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Registered office	Tqbqsqmu Sqcco Ltd P.O. Box 123 - 80403 KWqLE
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Bankers	i) Co-operative Bank of Kenya Nkrumah Road Branch, Mombasa P.O. Box 87771 - 80100 MOMBASA
	ii) Sidian Bank Ltd Austin House, Moi Avenue P.O. Box 90297-80100 MOMBASA

Auditors	Mhasibu J M & Co Certified Public qccountqnts qmir Suite Squti Yq Kenyq Roqd, Gqnjoni P.O. Box 85803 - 80100 MOMBqSq
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CS/xxxx
ABC Savings and Credit Co-operative Society Limited
Annual Report and Financial Statements
For the year ended 31st December 2016

Statistical information as at 31st December 2016

Membership		2016	2015
	Active	2,439	2,402
	Dormant	1,194	741
	Total	<u>3,633</u>	<u>3,143</u>

Financial	KShs	KShs
Total assets (Other assets a/c included)	519,212,064	457,553,539
Total assets (Other assets a/c excluded)	243,151,628	181,493,103
Members' deposit	345,492,513	332,709,947
External borrowing	35,828,128	-
Loans to members	116,462,705	68,716,698
Investments	35,457,495	13,577,425
Core capital	83,090,857	51,804,197
Statutory reserves	#REF!	20,578,623
Share capital	27,122,048	27,019,691
Institutional Capital	55,968,809	24,784,506
Total revenue	52,011,461	33,977,615
Interest income	46,309,274	30,200,792
Total expenses	31,411,795	98,120,002

Sacco establishment	15	13
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Capital Adequacy Ratio	%	%
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Core capital / Total assets	34.17%	28.54%
Core capital / Total deposits	24.05%	15.57%
Institutional capital / Total assets	23.02%	13.66%

Liquidity Ratio (15.0 %)		
Liquidity assets / Total deposits and L/ term liabilities	18.57%	17.30%

Operating Efficiency/Loan quality ratios		
Total Expenses / Total Revenue	60.39%	288.78%
Interest on Members' deposits / Total Revenue	0.33%	0.52%
Interest rates on members' withdrawable deposits	4.0 - 10.0 %	4.0 - 10.0 %
Interest rates on members' non-withdrawable deposits	1.0%	0.0 %
Dividend rate on members' shares	5.0%	5.0%
Total Delinquency Loans / Gross Loan portfolio	11.10%	18.00%

Report of the Board of Directors

The Board of Directors submit their report together with the audited financial statements for the year ended 31st December 2016.

Incorporation

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

Principal activity

The principal activity of the Sacco is savings, deposit taking and issuing credits.

Results for the year	2016 KShs	2015 KShs
Surplus before taxation	20,774,079	58,403,518
Income tax expense	-	(540,135)
Surplus after taxation	20,774,079	57,863,384
Donations	(24,000)	(3,060)
Transfer to statutory reserve	(4,150,016)	(11,572,065)
Retained surplus for the year	<u>16,600,063</u>	<u>46,288,259</u>
Interest on members' withdrawable deposits	<u>173,201</u>	<u>175,594</u>

Dividend and interest on members' deposits

The Board of Directors does recommend payment of first and final dividends at rate of 5% (2015: 5.0%). They also recommend interest on members' deposit of 1.0% (2015: 0.0%)

The Board of Directors

The members' of the Board of Directors who served during the year and to date of this report is as listed on page 2.

By order of the Board

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HON SECRETARY
LUNGA LUNGA

DATE2017

Statement of The Board of Directors' Responsibilities

The Sacco Societies Act (No 14 of 2008) requires the Board of Directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Sacco as at the end of the financial year and of its operating results for that year in accordance with International Financial Reporting Standards (IFRS). It also requires the Board of Directors to ensure that the Sacco keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Sacco. They are also responsible for safeguarding the assets of the Sacco and ensuring that the business of the Sacco has been conducted in accordance with its objectives, by-laws and any other resolutions made at the Sacco's general meeting.

The Board of Directors accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS and in the manner required by the Sacco Societies Act (No. 14 of 2008). The Board of Directors is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the society and of its operating results in accordance with the IFRS. The Board of Directors further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Board of Directors to indicate that the society will not remain a going concern for at least twelve months from the date of this statement.

Approved by the Board of Directors on 2017 and signed on its behalf by:

Signature Chairman

Signature Treasurer

Signature Board Member

Report on the Financial statement

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Savings and Credit Co-operative Society Limited (Sacco) as at December 31, 2016, and financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Sacco, which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Sacco within the meaning of ISA 200 and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with [those charged with governance Board of directors], but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Other Assets

The Sacco classified all uncollectable debts as other assets. As at 31st December 2016 the balance stood at KShs 271,060,436/- having been written down by KShs 15.0 million and KShs 5.0 million in the financial years 2015 and 2016 respectively. We find this classification as significant in our audit because among other things it is made up of bad loans. Normal treatment of bad loan is write off through comprehensive income. The Sacco has insufficient funds to cover other assets. The Sacco's disclosure of other assets as neither non-current assets nor current assets is due to their nature. They are not realizable and cannot be used to generate revenue. The assets are earmarked for write-off an action which will take long to implement due to Sacco's profitability. See Note 21.

Front Office Services Activities

ABC Sacco operates Deposit - Taking Business. The rules and regulations to operationalize this activity, among other things, include a condition that take home pay must be greater than one - third of basic salary. From sample taken we observed that 76 % of FOSA loans and advances did not meet one-third rule. We consider over-ride of management control in issuance of FOSA loans was significant to our audit because the Sacco is currently grappling with a huge bad loan it cannot write-off immediately because of insufficient reserves. The Board of directors are satisfied that FOSA loans are only given to those who pass vetting and loan repayment history criteria. Board of directors are also apprehensive of perception that members denied FOSA loans on one-third rule grounds will be advanced credit by commercial banks.

Report on the Financial statement (Continued)

Furniture and Fittings Valuation

The Sacco valued furniture and fittings KShs 9,557,635/- at 31st December 2016, which included brought forward balance of KShs 8,856,000/- as at 31st December 2013. The brought forward balance was characterised with reconciliation inconsistencies between physical assets and ledger balance. Assets identification and valuation was could not be traced to ledger balance. We consider this observation significant to our audit because liabilities are not adequately covered and earnings are understated because of over-depreciation. Assets verification carried out in the year 2014 disclosed that some furniture were dilapidated, rusty and overvalued. Obsolete furniture have since been discarded and/or sold but historical costs have not been removed from the books.

Going Concern

The financial statements of the Sacco have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Sacco or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Sacco's financial statements is appropriate.

Board of directors has not identified a material uncertainty that may cast significant doubt on the Sacco's ability to continue as a going concern, and accordingly none is disclosed in the financial statements of the Sacco. Based on our audit of the financial statements of the Sacco, we also have not identified such a material uncertainty. However, neither Board of directors nor the auditor can guarantee the Sacco's ability to continue as a going concern.

Other information

The Board of directors is responsible for the other information. The other information comprises the Sacco Societies Regulatory Authority (SASRA) returns and economic reports, which we obtained prior to the date of this auditor's report, and the Chairman's report, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read the Chairman's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Report on the Financial statement (Continued)

Responsibilities of Board of directors and Those Charged with Governance for the Financial Statements

Board of directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, 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. Board of directors are responsible for overseeing the Sacco's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We are required to communicate with Board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Financial statement (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

Report of the Independent Auditor to the members of ABC Sacco Limited

Report on Other Legal Requirement

As required by the Sacco Societies Act No 14 of 2008, we report to you that financial statements are in agreement with the books kept by the Sacco and that, based on our audit, nothing has come to our attention that causes us to believe that the Sacco's business has not been conducted.

- i) in accordance with the provisions of the Sacco Societies Act.
- ii) in accordance with the Society's by-laws, policies and any other resolutions made by the Sacco at general meetings.

Juma Mulindwa Yusuf practices in Yusuf J M & Co as a business name

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

Certified Public Accountants

_____ 2017

Statement for comprehensive income for the period ended 31st December 2016

	Notes	2016 KShs	2015 KShs
Revenue			
Interest on BOSA loans	7	21,713,719	13,430,459
Interest on FOSA loans	8	24,595,555	16,770,333
Other interest income	9	5,702,187	3,776,824
Total interest		<u>52,011,461</u>	<u>33,977,615</u>
Interest expense	10	(2,435,379)	(9,394,835)
Net interest income		<u>49,576,082</u>	<u>24,582,781</u>
Other operating income	11	174,413	122,545,905
Administration expenses	12	(10,321,075)	(25,695,283)
Other operating expenses	13	(18,655,341)	(63,029,885)
Net operating surplus before income tax	14	<u>20,774,079</u>	<u>58,403,518</u>
Taxation	15	-	(540,135)
Net surplus for the year		<u>20,774,079</u>	<u>57,863,384</u>
Donations		<u>(24,000)</u>	<u>(3,060)</u>
		20,750,079	57,860,324
20% transfer to statutory reserve	27	(4,150,016)	(11,572,065)
Net surplus for the year		<u><u>16,600,063</u></u>	<u><u>46,288,259</u></u>

Notes on pages 14 to 40 form integral part of these financial statements.

Report of the independent auditors - pages 6 and 9.

* refer to note 21

Statement of financial position

Assets	Note	2016 KShs	2015 KShs
Cash and cash equivalents	16	41,043,502	50,698,242
Trade and other receivables	17	18,980,518	16,493,417
Loans to members	18	116,462,705	68,716,698
Other financial assets	19	35,457,495	13,577,425
Intangible assets	20	2,594,749	3,243,436
Other assets	21	276,060,436	276,060,436
Property, plant and equipment	22	28,612,659	28,763,885
Total assets		<u>519,212,064</u>	<u>457,553,539</u>
Liabilities			
Members' deposits	23	345,492,513	332,709,947
Current income tax payable	15	-	540,135
Trade payables and accrued expenses	24	37,652,228	44,916,699
Interest bearing liabilities	25	<u>35,828,128</u>	<u>-</u>
Total liabilities		418,972,869	378,166,781
Equity			
Share capital	26	27,122,048	27,019,691
Statutory reserves	27	#REF!	20,578,623
Revenue reserves	28	#REF!	20,084,357
Other reserves	29	10,353,102	10,353,102
Proposed dividend	28	8,550	1,350,985
Proposed honorarium & staff bonus	28	360,000	-
Total equity		<u>#REF!</u>	<u>79,386,758</u>
Total liabilities and equity		<u>#REF!</u>	<u>457,553,539</u>

The financial statements on pages 10 to 40 were authorized for issue by the Board of Directors on 2017 and signed on its behalf by:

_____ Chairman	_____ Secretary
_____ Treasurer	_____ Member

Notes on pages 14 to 40 form integral part of these financial statements.

Report of the independent auditors - pages 6 and 9.

* refer to note 21

Statement of changes in equity

	Share capital KShs	Statutory reserves KShs	General reserves KShs	Revenue reserves KShs	Proposed Dividends & Interest	Total KShs
At 1st January 2015						
As previously reported	26,689,591	9,006,559	10,353,102	(24,852,917)		21,196,335
Prior year adjustment	-	-	-	-		-
As restated	26,689,591	9,006,559	10,353,102	(24,852,917)	-	21,196,335
Changes in 2015						
Profit for the year	-	-	-	57,860,324		57,860,324
Total comprehensive income for the year	26,689,591	9,006,559	10,353,102	33,007,407	-	79,056,659
Transaction with owners:						
Shares issued for cash	330,100	-		-		330,100
Funds transfer from revenue reserves	-	11,572,065	-	(11,572,065)		-
Interest on deposit paid						-
Dividends on share capital			-		1,350,985	1,350,985
At 31st December 2015	27,019,691	20,578,623	10,353,102	21,435,342	1,350,985	80,737,744
At 1st January 2016						
As previously reported	27,019,691	20,578,623	10,353,102	21,435,342	1,350,985	80,737,744
Overstatement adjustment	-	-	-	(1,350,985)	-	(1,350,985)
As restated	27,019,691	20,578,623	10,353,102	20,084,357	1,350,985	79,386,759
Changes in 2016						
Profit for the year	-	-	-	20,750,079	-	20,750,079
Total comprehensive income for the year	27,019,691	20,578,623	10,353,102	40,834,436	1,350,985	100,136,838
Transaction with owners:						
Shares issued for cash	102,357	-		-		102,357
Funds transfer from revenue reserves	-	4,150,016	-	(4,150,016)		-
Proposed dividend and interest 2016				(8,550)	8,550	-
Honorarium and staff bonus 2016	-	-	-	(360,000)	360,000	-
Dividends paid on share capital 2015	-	-	-	1,350,985	(1,350,985)	-
At 31st December 2016	27,122,048	24,728,639	10,353,102	37,666,856	368,549	100,239,194

Notes on pages 14 to 40 form integral part of these financial statements.

Report of the independent auditors - pages 6 and 9.

* refer to note 21

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st DECEMBER 2016

	Notes	2016 KShs	2015 KShs
Net cash generated from operating activities	31	(31,648,921)	146,814,748
Increase/(Decrease) in Cash flow from investing activities			
Purchase of property and equipment	20 & 22	(1,184,955)	(1,682,025)
Proceeds from disposal of property, plant and equipment	22	-	805,405
Dividends received	9	5,419,705	3,267,737
Purchase of investments securities	19	(21,880,070)	7,254,512
Net cash flow from investing activities		(17,645,320)	9,645,628
Increase/(decrease) in cash flow from financing activities			
Share capital contributions	26	102,357	330,100
Repayment of long-term borrowing	25	(5,171,872)	(127,366,442)
Proceeds from long-term borrowings		41,000,000	
Dividends paid		(1,350,985)	-
Net cash from financing activities		34,579,500	(127,036,342)
Net Increase/(decrease) in cash and cash equivalents		(14,714,740)	29,424,035
Cash and cash equivalent at the beginning of the year	16	50,698,242	21,274,207
Cash and cash equivalent at the end of the year	16	35,983,502	50,698,242

Notes on pages 14 to 40 form integral part of these financial statements.

Report of the independent auditors - pages 6 and 9.

* refer to note 21

NOTES TO THE FINANCIAL STATEMENT

1. Basis of preparation

The financial statements are prepared in accordance and comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statement are presented in the functional currency, Kenya shilling (KShs) rounded to the nearest Shilling.

The preparation of financial statements in conformity with IFRS/IAS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Sacco's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed on note 2.

Measurement basis

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

2. New and amended standards and Interpretations, effective for financial years starting after 1 January 2016

Standards and interpretations issued up to the date of issuance of Sacco Society's financial statements are listed below. The listing of standards and interpretations issued are those that Sacco Society reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. Sacco Society intends to adopt these standards and interpretations when they become effective.

- IFRS 5, Non-current assets Held for Sale and Discontinued Operations

Annual Improvements 2012-2014 Cycle: Amendments clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held for sale does not change.

- IFRS 7 Financial Instruments: Disclosures

- › Annual Improvements 2012-2014 Cycle: Amendment clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts.
- › Annual Improvements 2012-2014 Cycle: Amendment clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34.

- IFRS 9 Financial Instruments

A final version of IFRS 9 has been issued which replaces IAS 39. Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition.

NOTES TO THE FINANCIAL STATEMENT

2. New and amended standards and interpretations (Continued)

- IFRS 10 Consolidated Financial Statements

- › Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.
- › Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) : Narrow scope amendment address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

- IFRS 11 Joint Arrangements

Amendments adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business which specify the appropriate accounting treatment for such acquisitions.

- IFRS 12 Disclosure of Interests in Other Entities

Investment Entities: Applying the Consolidation Exception : Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

- IAS 1, Presentation of Financial Statements

Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.

- IAS 16 Property, Plant and Equipment

- › Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.
- › Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.

NOTES TO THE FINANCIAL STATEMENT

2. New and amended standards and interpretations (Continued)

- IAS 27 Consolidated and Separate Financial Statements

Amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- IAS 28 Investments in Associates and Joint Ventures

- › Investment Entities: Applying the Consolidation Exception : Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

- › Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

- IAS 38 Intangible Assets

- › Amendments to IAS 16 and IAS 38 to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset.

- › Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.

- IFRS 15 Revenue from Contracts from Customers

- › New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.

- › The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

- › The new standard supersedes:

- a) IAS 11 Construction Contracts;
- b) IAS 18 Revenue;
- c) IFRIC 13 Customer Loyalty Programmes;
- d) IFRIC 15 Agreements for the Construction of Real Estate;
- e) IFRIC 18 Transfers of Assets from Customers; and
- f) SIC-31 Revenue—Barter Transactions Involving Advertising Services.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies

a) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Sacco and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duties. The Sacco assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Sacco has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- Interest on members' loans
Interest on loans to members is calculated on a reducing balance method. Interest income is recognized on a time proportion basis by reference to the principal outstanding and the effective interest rate applicable.
- Interest on financial instruments
For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.
- Dividends
Revenue is recognized when the Sacco's right to receive the payment is established.

b) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

c) Critical accounting estimates and assumptions

The Sacco makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. In particular, estimates are made by the board members in determining the recoverable amount of impaired receivables.

In the process of applying the Sacco's accounting policies, management has made judgments in determining:

- the classification of financial assets and leases
- whether assets are impaired

d) Turnover

Revenue represents interest on member loans, interest on bank savings, rebates from investment, income from Front and Back Office Operations.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

e) Property, Plant and Equipment

All categories of property, plant and equipment are initially recorded at cost and thereafter, stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the assets carrying value only when it is probable that future economic benefits with the item will flow to the Sacco and the cost of the item can be measured reliably. Decrease that offset previous increase including depreciation of the assets are charged to comprehensive income statement. The cost of repairs and maintenance is charged to the comprehensive income statement in the year to which it relates.

Depreciation is calculated on the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life as shown below.

Land and building	2.0%
Office equipment, furniture & fittings	12.5%
Computer hardware and photocopy machine	30.0%
Computer software	20.0%
Generator	12.5%

Property, plant and equipment are checked for impairment whenever events or change in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of assets fair value less costs to sell and value in use.

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

f) Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

- on disposal,
- when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in comprehensive income statement when the item is derecognised in compliance with IAS 17. Gains shall not be classified as revenue.

g) Intangible assets

Software license costs are stated at historical cost less estimated accumulated amortization and accumulated impairment losses. Amortization is calculated using the reducing balance method to write down the cost of the software to its residual value over the estimated useful life using an annual rate of 20%.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

h) Leases

Finance leases recognised as assets by lessee shall be disclosed as follows,

i) Finance lease

Leases of property, plant and equipment where the Sacco assumes substantially all the benefits and risks of ownership are classified as finance leases. Assets acquired under finance leases are capitalized at the inception of the lease at the lower of their fair values and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rentals obligations, net of finance charges are included in non-current liabilities while the interest element of the finance charge is charged to statement of comprehensive income over the lease period.

ii) Operating leases

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

i) Financial Instruments

i) The Sacco classifies its financial instruments into the following categories:

- Financial assets and financial liabilities at fair value through comprehensive income statement, which comprise financial assets or financial liabilities designated by the Sacco at fair value through statement of comprehensive income and which are managed and their performance evaluated on a fair value basis in accordance with the Sacco's investment strategy.
- Held-to-maturity investments, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Sacco has a positive intention and ability to hold to maturity.
- Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the Sacco intends to sell immediately or in the near term or those which the Sacco upon initial recognition designates as at fair value through comprehensive statement or as available-for-sale financial assets.
- Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available for sale financial assets, and not classified under any of the other categories of financial assets.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

i) Financial Instruments (Continued)

ii) Financial assets

All financial assets are recognized initially using the trade date accounting which is the date the Sacco commits itself to the purchase or sale. Financial assets carried at fair value through comprehensive income statement are initially recognized at fair value and the transaction costs are expensed in the comprehensive income statement. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Investment in equity shares classified as available-for-sale assets for which there is no active market and whose fair value cannot be reliably measured are carried at cost.

iii) Impairment of Financial Assets

The entity assesses at each reporting date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognized. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate. Changes in fair value of financial assets at fair value through comprehensive income statement are recognized in the comprehensive income statement.

iv) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or the Sacco has transferred substantially all risks and rewards of ownership.

v) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

vi) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate. A provision for impairment is recognized in the comprehensive income statement in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the comprehensive income in the year of recovery.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

i) Financial Instruments (Continued)

vii) Financial liabilities and equity instruments issued by the Sacco

- **Classification as debt or equity**
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.
- **Equity instruments**
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Sacco are recorded as the proceeds received, net of direct issue costs. The capital comprise primarily of minimum share capital prescribed under the By-laws of the Sacco.
- **Financial liabilities**
All financial liabilities are recognized initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through comprehensive income statement, which are initially recognized at fair value and the transaction costs are expensed in the statement of comprehensive income.

Subsequently, all financial liabilities are carried at amortized cost using the effective interest method except for financial liabilities through comprehensive income statement which are carried at fair value.

All financial liabilities are classified as non-current except financial liabilities at fair value through comprehensive income statement, those expected to be settled in the Sacco's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the Sacco does not have an unconditional right to defer settlement for at least 12 months after the reporting date.
- **Derecognition of Financial Liabilities**
Financial liabilities are derecognized only when the obligation specified in the contract is discharged or cancelled or expires.
- **Provision for liabilities and charges**
Provisions are recognized when the Sacco has a present obligation (legal or constructive) as a result of a past event, it is probable that the Sacco will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.
- **Other financial liabilities**
All other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

j) Investment property

An investment property comprises a building or part of a building and land held for long term yields and/or capital appreciation and which are not occupied by the Sacco is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is carried at fair value representing market value determined annually by external independent valuers. Changes in fair values are recognized in the comprehensive income statement.

Subsequent expenditure to 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 subsequent expenditure is recognized as an expense in the year in which it was incurred.

On disposal of an investment property, the difference between the net disposals proceeds and the carrying amount is charged or credited to the comprehensive income.

k) Impairment of non-financial assets

The carrying amounts of the Sacco's tangible and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such condition exists the recoverable amount of the asset is estimated to determine the extent of impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount impairment loss is recognized immediately, unless the relevant asset is carried at revalued amount in which case the impairment loss is treated as a decrease in revaluation reserve. The respective asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in revaluation reserve.

l) Employment benefits

Employment entitlement to gratuity are recognized when they accrue to employees. Provision is made for the estimated liability of such entitlements as a result of services rendered by employees up to the financial position date. The estimated monetary liability for employees' accrued annual leave entitled at the financial position date is recognized as an expense accrual.

m) Retirement benefits obligation

The Sacco operates a defined contribution scheme for permanent employees. A defined contribution plan is a pension plan under which the Sacco pays fixed contributions into a separate entity. The assets of these schemes are held in a separately administered fund that is funded by contribution from the Sacco and employees.

The Sacco has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The Sacco contributions to the scheme are charged to the comprehensive income statement in the year to which they relate.

The Sacco and its employees also contribute to a mandatory statutory defined contribution scheme, the National Social Security Fund (NSSF) at same values.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

n) Taxation

Current tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

In particular under section 19A (4) of the Income Tax Act, the society being a designated society that carries on business as a Credit and Savings Co-operative Society, income tax only arises on interest income from non-members and any other income not arising from activities relating to advance or deposit from members.

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

Deferred income tax assets are recognized only to the extent that it is probable that the future taxable profits will be available against which temporary differences can be utilized.

o) Statutory reserve

Transfers are made to the statutory reserve at the rate 20% of the net operating surplus after taxation in accordance with Rule 37(1) of Co-operative Societies rule, 2004 – legal notice no 122.

p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value net of banks overdrafts.

q) Non current assets held for sale or discontinued operations

i) Non current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

For assets to be classified as held for sale the asset(s) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

ii) Non-current assets that are to be abandoned

The Sacco does not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

3. Summary of Significant Accounting Policies (Continued)

q) Non current assets held for sale or discontinued operations (Continued)

- iii) Sacco presents non-current asset(s) classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position.

No depreciation (or amortization) of a non-current asset takes place while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

r) Collateral

The Sacco discloses:

- the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39; and
- the terms and conditions relating to its pledge.

When the Sacco holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

- the fair value of the collateral held;
- the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
- the terms and conditions associated with its use of the collateral.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

4. Capital Risk Management

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

The capital structure of the Sacco consists of net debt calculated as total debt less cash and cash equivalents and equity. The Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Sacco has a target gearing ratio of 1 : 5 determined as the proportion of net debt to equity. In order to maintain or adjust the capital structure, the Sacco may adjust the amounts of dividends paid to members. The Sacco's overall strategy remains unchanged from 2015.

The debt-to-capital ratios at 31 December 2016 and 2015 were as follows:

	2016 KShs	2015 KShs
Total borrowings	36,045,325	-
Less Cash and cash equivalent	41,043,502	50,698,242
Net Debt	(4,998,176)	(50,698,242)
Total equity	#REF!	79,386,758
Debt-to-adjusted capital ratio	-	-

The Sacco is not subject to any external capital requirements. However, the Kenyan Sacco Societies Act stipulates that a Sacco shall not acquire external borrowing in excess of 25% of its total assets unless the limit has been waived by the Authority. The Sacco did not have any external borrowings.

5. Financial risk management objective and policies

The Sacco's operations are exposed to financial risks. These risks include credit risk, liquidity risk, market risk and operating risks. The market risk comprises currency risk, fair value, interest risk and price risk. The Sacco's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Sacco's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Sacco's risk management framework.

The Sacco's risk management policies are established to identify and analyse the risks faced by the Sacco, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Sacco, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board is responsible for monitoring compliance with the Sacco's risk policies and procedures, and for reviewing their adequacy. The Board is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

5. Financial risk management objective and policies (Continued)

a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Sacco and arises principally from the Sacco's loans and advances to its members. The amounts presented in the statement of financial position are net of impairment for doubtful debts, whose estimates are based on prior experience and assessment of the current economic environment. The Sacco has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, guarantors where appropriate, as a means of mitigating the risk of financial loss from defaults. The Sacco also structures the level of credit risk it undertakes by placing limits on amount of risk accepted in relation to one borrower or group of borrowers.

Trade receivables consist of employees drawn mainly from learning institutions with membership also open to individuals from other organization or industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable and credit guarantee insurance cover is purchased to mitigate the risks.

The Sacco does not have any significant credit risk exposure to any single counterparty.

The amount that best represents the Sacco maximum exposure to credit risk at 31st December 2016 is made as follows;-

	2016	2015
Maximum exposure to credit	KShs	KShs
Cash and cash equivalents	41,043,502	50,698,242
Investments not available for sale	24,290,514	3,351,431
Short term investment available for sale	11,166,981	10,225,994
Prepayments and receivables	18,980,518	16,493,417
Loans to members	116,462,705	68,716,698
	<u>211,944,220</u>	<u>149,485,782</u>

No collateral is held for any of the above assets except for loans to members which are issued against non-withdrawable deposits. The Sacco does not grade the credit quality of receivables. All receivables that are neither past due nor impaired are within their approved credit limits. The Sacco writes off receivables as and when the Board of Directors determines that the receivables are uncollectible.

b) Liquidity risk management

An appropriate liquidity risk management framework for the management of the Sacco's short, medium and long-term funding and liquidity management requirements is in place. The Sacco manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Board of Directors is responsible for liquidity risk management and to ensure, as far as possible, that the Sacco will always have sufficient liquidity to meet its obligation when due, under both normal and stress conditions without incurring unacceptable losses or risk of damaging the Sacco's reputation. This includes the potential impact of extreme circumstances that cannot reasonably be predicated. All liquidity policies and procedures are subject to review of the management and approval by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

5. Financial risk management objective and policies (Continued)

b) Liquidity risk management (Continued)

The table below provided a contractual analysis of the Sacco's financial liabilities;-

Financial liabilities	2016 KShs	2015 KShs
Members Savings and deposits	345,492,513	332,709,947
Payables	73,480,357	44,916,699
Interest on members' withdrawable deposits	173,201	175,594
Tax payable	0	540,135
	<u>419,146,071</u>	<u>378,342,374</u>

The following table detail the Sacco's remaining contractual maturity for its financial assets:

31st December 2016	Less than one month	1-3 months	3 mths - 1 Year	1 - 5 years	Over 5 Years	Total
Financial assets	350,000	1,055,853	21,641,702	5,357,347	7,284,260	35,689,162
Receivables	6,753,364	-	-	12,227,155	-	18,980,518
Loans to members	22,269,748	31,596,351	50,901,625	11,694,980	-	116,462,705
	<u>29,373,112</u>	<u>32,652,205</u>	<u>72,543,327</u>	<u>29,279,482</u>	<u>7,284,260</u>	<u>171,132,385</u>

31st December 2015	Less than one month	1-3 months	3 mths - 1 Year	1 - 5 years	Over 5 Years	Total
Financial assets	150,000	450,000	1,350,000	3,407,347	8,220,078	13,577,425
Receivables	5,620,846	-	514,000	10,358,571	-	16,493,417
Loans to members	6,392,971	7,732,633	12,193,641	16,296,263	26,101,190	68,716,698
	<u>12,163,817</u>	<u>8,182,633</u>	<u>14,057,641</u>	<u>30,062,181</u>	<u>34,321,269</u>	<u>98,787,540</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

5. Financial risk management objective and policies (Continued)

b) Liquidity risk management (Continued)

The following table detail the Sacco's remaining contractual maturity for its financial liabilities:

31st December 2016	Less than one month	1-3 months	3 mths - 1 Year	1 - 5 years	Over 5 Years	Total
Members' deposits	1,282,452	4,482,272	15,378,314	32,303,304	292,046,171	345,492,513
Trade payables	2,014,642	21,205,888	15,462,883	40,186,212	-	78,869,625
Accrued interest	8,550	20,049	153,152	-	-	181,751
	<u>3,305,643</u>	<u>25,708,209</u>	<u>30,994,348</u>	<u>72,489,515</u>	<u>292,046,171</u>	<u>424,543,888</u>
31st December 2015	Less than one month	1-3 months	3 mths - 1 Year	1 - 5 years	Over 5 Years	Total
Members' deposits	2,215,336	2,769,936	4,633,410	2,416,440	320,674,824	332,709,947
Trade payables	17,258,107	3,556,172	4,374,213	470,072	19,798,271	45,456,834
Accrued interest	48,142	38,333	89,119	-	-	175,594
	<u>19,521,586</u>	<u>6,364,441</u>	<u>9,096,742</u>	<u>2,886,512</u>	<u>340,473,095</u>	<u>378,342,375</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

5. Financial risk management objective and policies (Continued)

c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates will affect the Sacco's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

- Management of market risk

The Sacco holds held to maturity and available for sale portfolios. Overall authority for market risk is vested in the board.

- Exposure to interest rate risk - non trading portfolios

The principal risk to which held to maturity portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands.

6. Capital management

The Sacco manages its capital to ensure it will be able to continue as a going concern while maximizing the return to members through the optimization of debt and equity balance.

In implementing the requirements, the Sacco Society Act No 14 of 2008 requires that each deposit taking Sacco comply with:-

- core capital of not less than 10 million shillings.
- core capital of not less than 10% of total assets.
- institutional capital of not less than 8% of total assets.
- core capital of not less than 8% of total deposits.
- liquid assets of not less than 15% of savings deposits and short term liabilities.

The capital adequacy ratios as at 31st December 2016 and prior year were as follows:

	2016	2015
core capital of not less than 10 million shillings.	83,090,857	51,804,197
core capital / total assets.	34.17%	28.54%
institutional capital / total assets.	23.02%	13.66%
core capital / total deposits.	24.05%	15.57%
liquid assets / total deposits and long term liabilities.	18.57%	17.30%

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
7. Revenue		
Interest on BOSA loans		
Emergency loans	860,008	1,194,718
Normal loans	11,038,844	6,396,695
Education loans	1,795,311	2,733,320
Instant loans	373,237	32,924
Personal loans	1,523,502	67,938
Micro finance interest	12,553	34,220
Special loans	851,430	672,143
Karibu loans	112,466	124,287
Scholar plus	5,146,368	2,174,214
	<u>21,713,719</u>	<u>13,430,459</u>
8. Interest on FOSA loans		
Fosa loan Advances	3,683,867	4,925,083
Jienjoy interest	364,127	289,499
FOSA Sasa loans interest	2,399,895	2,177,496
Appraisal interest	3,495,655	1,186,755
Interest on advances	1,319,096	1,127,416
Interest on loan transfer	328,000	216,200
Interest on salary transfer	3,230,340	3,268,970
Interest on standing order	487,859	466,803
Interest on cheque clearance	209,561	180,777
Interest on withdrawal limit	183,659	34,783
Interest on loans clearance	5,349,179	-
Interest on cash withdrawal	3,044,706	2,757,861
Interest on statement issue	19,600	5,800
Interest on ATM transactions	87,359	83,442
Interest on loan application form	291,970	-
Other interest incomes	95,085	45,550
Account closure interest	5,598	3,898
	<u>24,595,555</u>	<u>16,770,333</u>
9. Other interest income		
Interest on bank deposits	282,482	509,087
Dividends from investment	5,419,705	3,267,737
	<u>5,702,187</u>	<u>3,776,824</u>
Total interest	<u>52,011,461</u>	<u>33,977,615</u>
10. Interest expenses		
Interest on withdrawable deposits	173,201	175,594
Interest on bank loans	2,253,628	7,868,257
Dividends and interest on non-withdrawable deposits	8,550	1,350,985
	<u>2,435,379</u>	<u>9,394,835</u>

Interest on members' withdrawable deposits during the financial year 2016 varied between 4.0% and 10.0% (2015: 4% - 10%). The actual rate applicable, is member specific and is negotiated when deposits are received.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
11. Other operating income		
Rental income	174,413	740,500
Gains from sale of Ordinary shares	-	121,000,000
Profit from sale of Motor Vehicle	-	805,405
	<u>174,413</u>	<u>122,545,905</u>
Operating expenses		
12. Administration expenses		
Micro finance expenses	48,000	-
Printing & stationery	349,071	236,074
Postage and telephone	137,175	112,713
Repairs and maintenance	371,168	313,098
Legal and consultancy fees	196,000	432,901
Ushirika / Sacco day expenses	78,000	40,000
Utilities, water & detergents	143,429	130,902
Security, guards & alarm system	3,757,469	3,780,341
Generator running expenses	203,802	329,378
Electricity expenses	350,557	349,003
Industrial training Levy - NITA	8,150	6,600
Annual subscription	185,900	195,500
Office rent & rates	837,245	453,671
Audit fees	250,000	220,000
SASRA regulation expenses	409,342	409,004
Computer accessories & maintenance	193,490	241,800
System support & maintenance	747,040	603,450
Motor vehicle running expenses	-	58,780
WAN and internet costs	668,320	526,060
Strategic planning expenses	350,600	210,000
Newspaper & periodicals	45,420	46,440
CRB expenses	-	33,700
Sundry expenses - employer	58,160	-
Taxes and levies	-	117,697
Other assets write - off	5,000,000	15,000,000
Upgrade control expense account	-	974,917
Honorarium & Staff Bonus	360,000	
Insurance expense	932,737	873,253
	<u>15,681,075</u>	<u>25,695,283</u>
13. Other operating expenses		
a) Financial expenses		
Net provision for loan losses	-	3,678,350
Bank charges	746,049	600,904
ATM running costs	20,350	627
Provision for bad & doubtful debts	-	40,003,961
KUSSCO/TSC service fees	518,892	3,361,473
Total financial expenses	<u>1,285,291</u>	<u>47,645,315</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
13. Other operating expenses		
b) Personnel expenses		
Basic salary	5,097,238	4,536,642
House allowance	1,854,504	1,617,156
Medical allowance	1,373,736	1,198,564
Responsibility allowance	102,848	72,963
Acting allowance	38,913	127,117
Provident fund employer contribution	432,003	351,215
NSSF employer contribution	35,200	31,800
Staff travelling & subsistence allowances	777,140	717,980
Casual wages & overtime	199,060	234,816
Staff leave allowance	95,000	82,350
Staff training and development	270,650	229,500
Gratuity	456,521	599,952
Commuter allowance	796,835	723,871
Staff arrears	-	31,473
Total personnel expenses	<u>11,529,649</u>	<u>10,555,398</u>
c) Governance expenses		
Committee sitting allowance	290,571	291,840
Committee travelling and subsistence	963,118	753,242
Committee education	652,880	252,500
AGM/SGM expenses	351,726	479,740
Education to Members	605,550	-
Total governance expenses	<u>2,863,845</u>	<u>1,777,322</u>
d) Depreciation		
Depreciation - tangible assets	1,630,180	1,733,716
Amortization - intangible assets	648,687	810,859
	<u>2,278,867</u>	<u>2,544,575</u>
e) Marketing and publicity		
Marketing and advertising	691,689	507,275
Total marketing and publicity expenses	<u>691,689</u>	<u>507,275</u>
Total other operating expenses	<u>18,649,341</u>	<u>63,029,885</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
14. Net operating surplus		
The following items has been charged in arriving at net operating surplus		
Depreciation and amortisation		
Depreciation of property, plant and equipment	2,278,867	2,544,575
Employee benefits expenses		
Personnel expenses	11,529,649	10,555,398
Auditor's remuneration	250,000	220,000
	<u> </u>	<u> </u>
15. Income tax		
Interest from investment	282,482	509,087
	<u> </u>	<u> </u>
Taxable income from investment (50%)	141,241	254,543
Other income	174,413	1,545,905
	<u> </u>	<u> </u>
Total income chargeable to tax	315,654	1,800,448
Tax charged (30%)	<u>94,696</u>	<u>540,135</u>

Tax is calculated in full on temporary timing differences under the liability method using a principal tax rate of 30%.

16. Cash and cash equivalent

Cash and cash equivalent at the end of the year comprises:

Cash in hand	Treasury	2,190,200	14,620,200
	Petty cash	53,590	96,430
	Tellers	327,012	199,954
Cash at bank	Savings accounts	634,438	632,651
	Current accounts	37,031,624	34,342,369
	Mpesa float	806,638	806,638
		<u>41,043,502</u>	<u>50,698,242</u>

For the purposes of cash flow statement, cash and cash equivalent comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to known amount of cash. The year end cash and cash equivalent comprises cash in hand and deposits held at the bank.

17. Trade and other receivables

Debtors and prepayments	6,981,917	-
Deposits	102,500	137,500
Rent receivables	230,313	270,400
KTHS housing scheme	930,059	920,059
Co-op personal loans	<u>10,735,729</u>	<u>15,165,458</u>
	<u>18,980,518</u>	<u>16,493,417</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
18. Loan to members		
At the start of the year	83,799,822	98,744,451
Movement during the year	47,198,025	(14,944,628)
Loan balance as per the ledger	130,997,848	83,799,822
Provisions	(14,535,143)	(15,083,125)
	<u>116,462,705</u>	<u>68,716,698</u>
Variances		
Ledger balance	130,997,848	83,799,822
Members listing	130,966,450	83,686,822
	<u>31,398</u>	<u>113,000</u>

a) Variance between members' listing and general ledger

Loan category	Members' List	GL	Variance	Variance
Education loan	5,302,970	5,302,970	-	-
Normal loans	66,689,198	66,689,198	-	-
Emergency loans	3,609,605	3,641,005	(31,400)	(113,000)
Instant loans	2,887,331	2,887,329	2.00	-
Jienjoy loan	91,331	91,331	-	-
Micro loans	1,494,175	1,494,175	-	-
Personal loans	10,194,556	10,194,556	-	-
FOSA advances	4,555,043	4,555,043	-	-
FOSA sasa loans	21,857,224	21,857,224	-	-
Karibu loans	2,706,220	2,706,220	-	-
Special loans	3,675,532	3,675,532	-	-
Scholar plus loans	7,903,266	7,903,266	-	-
	<u>130,966,450</u>	<u>130,997,848</u>	<u>(31,398)</u>	<u>(113,000)</u>

b) Movement in provision for allowance for bad and doubtful debts:

	2016 KShs	2015 KShs
At 1 January	15,083,125	11,404,775
Impairment losses recognised-general	(547,982)	3,678,350
At 31 December	<u>14,535,143</u>	<u>15,083,125</u>
Ageing of past due loans		
0 days - Performing - 0% Provision	1,176,588	862,788
1 - 30 days (Watch - 5%)	136,515	580,343
31 - 180 days (Sub-standard - 25%)	494,346	3,821,942
181 - 360 days (Doubtful - 50%)	642,539	5,595,875
> 360 days (Loss account - 100%)	7,347,041	4,222,177
	<u>9,797,029</u>	<u>15,083,125</u>

The ledger listing balance at 31st December 2016 of KShs 9,797,030/- was at variance with general ledger balance of KShs 14,535,143/-. The control account and sub-ledger listing difference of KShs 4,738,114/- was as a result of removal of deceased members loans from Sacco's books.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
19. Other financial assets		
Financial assets		
a) Deposits		
KUSCCO Ltd - Jungu Kuu	1,000,498	398,939
KUSCCO Ltd - Instant	22,515,292	1,611,865
KUSCCO Ltd - Education	1,006,391	404,809
KUSCCO Ltd - Housing Scheme	-	935,818
	<u>24,522,182</u>	<u>3,351,431</u>
b) Shares - Unquoted		
Shares - Co-op holdings - 7,284,260 Shares @ KShs 1/-.	7,284,260	7,284,260
Shares - KUSSCO - 36,397 Shares @ KShs 100/- each	3,639,763	2,699,242
Shares - CIC - 212,832 Shares @ KShs 1/- each	212,832	212,832
Shares - KCB - 19,126 Shares @ KShs 1/- each	19,126	18,660
Shares in CAK	11,000	11,000
	<u>11,166,981</u>	<u>10,225,994</u>
	<u>35,689,162</u>	<u>13,577,425</u>
Housing scheme deposits were converted to KUSCCO shares in 2016.		
20. Intangible assets; computerization and software		
At start of the year	10,260,291	10,050,291
Additions	-	210,000
	<u>10,260,291</u>	<u>10,260,291</u>
At start of the year	7,016,855	6,205,996
Amortization	648,687	810,859
	<u>7,665,542</u>	<u>7,016,855</u>
At end of the year	<u>2,594,749</u>	<u>3,243,436</u>
21. Other assets		
At start of the year	276,060,436	291,060,436
Movement	(5,000,000)	(15,000,000)
At end of the year	<u>271,060,436</u>	<u>276,060,436</u>

All past due and uncollectible receivables at 31/12/2014 were transferred to other assets accounts and earmarked for write-off. In 2016 KShs 5.0 million (2015 - KShs 15.0 million) was provided.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

22. Property, plant and equipment

Cost/Valuation	Land & building KShs	Fixture & fittings KShs	Office equipment KShs	Generator KShs	Computer hardware KShs	Motor vehicle KShs	Total KShs
At January 2015	22,328,070	9,557,635	6,084,895	1,660,000	2,586,731	1,548,007	43,765,338
Additions	96,020	1,142,350	233,655	-	-	-	1,472,025
On disposal	-	-	-	-	-	(1,548,007)	(1,548,007)
Balance at December 2015	22,424,090	10,699,985	6,318,550	1,660,000	2,586,731	-	43,689,356
Additions	514,655	-	345,300	-	325,000	-	1,184,955
On disposal	-	-	-	-	-	-	-
Balance at December 2016	22,938,745	10,699,985	6,663,850	1,660,000	2,911,731	-	44,874,311
Accumulated Depreciation							
At January 2015	485,047	5,617,506	4,734,027	948,275	1,433,537	1,431,776	14,650,168
Charge for the year 2015	438,781	635,310	198,065	88,966	345,958	26,636	1,733,716
On disposal	-	-	-	-	-	(1,458,412)	(1,458,412)
Balance at December 2015	923,828	6,252,816	4,932,092	1,037,241	1,779,495	-	14,925,472
Depreciation charge - 2016	440,298	555,896	216,470	77,845	339,671	-	1,630,180
Balance at 31 December 2016	1,364,126	6,808,712	5,148,562	1,115,086	2,119,166	-	16,555,652
Net Book Value							
At 31 December 2016	21,574,619	3,891,273	1,515,288	544,914	792,565	-	28,318,659
At 31 December 2015	21,500,262	4,447,169	1,386,458	622,759	807,236	-	28,763,885

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)		
	2016 KShs	2015 KShs
23. Members' deposits		
a) Non withdrawable deposits		
At start of the year	311,100,140	298,913,462
Movement during the year	2,952,771	12,186,678
Sub-total	<u>314,052,911</u>	<u>311,100,140</u>
b) Withdrawable deposits		
At start of the year	20,460,382	15,862,145
Movement during the year	7,888,720	4,598,237
Sub-total	<u>28,349,102</u>	<u>20,460,382</u>
c) Fixed deposits		
At start of the year	1,149,424	1,565,977
Movement during the year	1,941,075	(416,553)
Sub-total	<u>3,090,499</u>	<u>1,149,424</u>
Total	<u>345,492,513</u>	<u>332,709,947</u>
Variances		
Balance as per members' list	314,052,911	308,984,259
Balance as per ledger account	<u>314,052,911</u>	<u>308,984,259</u>
Variances	<u>-</u>	<u>-</u>
24. Trade and other payables		
Sundry payable	209,870	140,170
Creditors & accruals	2,806,088	2,719,916
PAYE recoveries	230,548	130,863
NHIF recoveries	18,250	14,150
Provident fund recoveries	81,823	61,302
NSSF recoveries	6,400	5,200
Withholding tax payable	308,606	322,499
Union dues	6,050	4,500
Accum provision - bad and doubtful debts	11,085,411	15,084,688
Provision for FOSA overdrawn accounts	20,936,850	22,688,339
Dividend payable	102,813	-
Excise duty	47,619	80,636
Provision - member dividends and interest	5,000,000	1,350,985
Provision - honorarium and staff bonus	360,000	-
Loan protection fund	1,511,903	2,313,451
	<u>42,712,228</u>	<u>44,916,699</u>
25. Interest bearing liabilities		
Borrowings;		
KUSCCO Loan 1	14,959,876	-
KUSCCO Loan 2	20,245,260	-
Kwale County Government loan	840,189	-
	<u>36,045,325</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
25. Interest bearing liabilities (Continued)		
The borrowing are repayable as follows		
On demand within one year	5,166,667	-
In the second year	12,015,108	-
In the third and fourth year	18,863,550	-
	<u>36,045,325</u>	<u>-</u>
Amount due for settlement within one year	5,166,667	-
Amount due for settlement after one year	<u>30,878,658</u>	<u>-</u>

The interest rates on the bank loan and bank overdraft are reviewed periodically by the bank in the line with market rates and thus exposes the Sacco to cash flow interest rates risk.

In the opinion of the Board of Directors the carrying amounts of short term borrowings approximate to their fair value. Also in their opinion it is impracticable to assign fair values of the Sacco long term liabilities due to in ability to forecast interest rate changes.

	KShs	KShs
26. Share capital		
Balance brought forward	27,019,691	26,689,591
Contribution for the year	102,357	330,100
Balance carried forward	<u>27,122,048</u>	<u>27,019,691</u>

Non-refundable shares - Class "A" shares minimum 100 shares @ KShs 100/- per share; Class "B" shares minimum 60 shares @ KShs 100/- per share; Class "C" shares minimum 10 shares @ KShs 100/- per share.

27. Statutory Reserve Fund		
At 1st January 2016	20,578,623	9,006,559
Transfer during the year	4,150,016	11,572,064
At 31st December 2016	<u>24,728,639</u>	<u>20,578,623</u>

Transfer 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-operatives societies Act (No 12 of 1997).

28. Retained reserves		
At 1st January 2016	21,435,342	(24,852,917)
Contributions during the year	#REF!	46,288,259
	<u>#REF!</u>	<u>21,435,342</u>
Proposed dividends and interest 2016	8,550	1,350,985
Proposed honorarium & staff bonus	360,000	-
At 31st December 2016	<u>#REF!</u>	<u>20,084,357</u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

		2016 KShs	2015 KShs
29. General reserves			
At 1st January 2016		10,353,102	10,353,102
Contributions during the year		-	-
At 31st December 2016		<u>10,353,102</u>	<u>10,353,102</u>
30. Proposed dividend per shares			
Proposed dividends are accounted for as a separate component of the equity until they have been ratified at the Annual General Meeting. Total proposed dividends and interest on deposit for the year is KShs 5,000,000/-. Dividends for 2015 was KShs 1,350,985/-. Payment of dividend is subject to withholding tax of 5% per member.			
31. Reconciliation of operating cash to cash and cash equivalent			
Cash flows from operating activities			
Interest income	7	21,713,719	13,430,459
Net transaction interest income	8	24,595,555	16,770,333
Other interest income	9	282,482	509,087
Other operating income	13	174,413	121,740,500
Interest payments	10	(2,435,379)	(9,394,835)
Provision for loan losses	18	(547,982)	3,678,350
Depreciation of property, plant and equipment	22	1,630,180	1,733,716
Amortisation of intangible assets	20	648,687	810,859
Payment to employees and suppliers	12 - 13	(34,354,414)	(88,638,633)
General reserve overstatement		1,350,985	-
Operating surplus before changes in working capital		<u>13,058,246</u>	<u>60,639,836</u>
Decrease/(Increase) in working capital			
Net loans to members	18	(47,198,025)	14,944,629
Trade and other receivables	17	(2,487,101)	751,541
Other assets	21	-	15,000,000
Cash generated from operations		<u>(36,626,881)</u>	<u>91,336,006</u>
Increase/(decrease) in operating liabilities			
Deposits from members	23	12,782,566	14,252,481
Trade and accrued expenses	24	(7,264,471)	41,384,372
Net cash from operating activities before income taxes		<u>(31,108,786)</u>	<u>146,972,859</u>
Income tax paid	15	<u>(540,135)</u>	<u>(158,111)</u>
Net cash generated from operating activities		<u><u>(31,648,921)</u></u>	<u><u>146,814,748</u></u>

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

	2016 KShs	2015 KShs
32. Insider loans and advances		
Staff		
Key management	1,147,403	46,500
Short term employment advances	1,699,952	1,161,429
	<u>2,847,355</u>	<u>1,207,929</u>
Loans to board of members		
Board members	1,191,660	1,082,061
Supervisory board	1,069,712	379,462
	<u>2,261,372</u>	<u>1,461,523</u>
Total insider loans	<u>5,108,727</u>	<u>2,669,452</u>
% of insider loans to total loan portfolio	3.90%	3.19%
SASRA maximum requirement	<u>5%</u>	<u>5%</u>

33. Comparatives

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

CS/xxxx
ABC Savings and Credit Co-operative Society Limited
Annual Report and Financial Statements
For the year ended 31st December 2016

Taxation		
	2016 KShs	2015 KShs
Interest on bank deposits	282,482	509,087
Dividends from investment	-	-
	<u>282,482</u>	<u>509,087</u>
50% deductible	<u>141,241</u>	<u>254,543</u>
Interest chargeable to tax	141,241	254,543
Other income		
Rental income	174,413	740,500
Other income	0	805,405
	<u>174,413</u>	<u>1,545,905</u>
Total income chargeable to tax	<u>315,654</u>	<u>1,800,448</u>
Tax charged	<u>94,696</u>	<u>540,135</u>
Tax b/f	540,134	158,111
Tax paid	-540,134	-158,111
Tax charge for the year	94,696	540,135
W/holding tax	0	0
Tax c/f	<u>94,696</u>	<u>540,134</u>