MKOPO SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED	IAS1. p51
CS/……………………..	
ANNUAL REPORT AND FINANCIAL STATEMENTS	IAS1. p51
FOR THE YEAR ENDED 31 DECEMBER 2018	IAS1. p51

December 2018

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 Societies Act No. 14 of 2008 for accounting periods beginning on or after 1 January 2018. The presentation format is not the only acceptable form of presentation and alternative presentations 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 and is not a substitute for reading the standards and interpretations themselves or for professional judgement. Whenever necessary, reference to International Financial Reporting Standards should be made.

This specimen was updated using the edition containing the IFRS Standards, as approved by the International Accounting Standards Board for issue up to 31 December 2017, that are required to be applied for accounting periods beginning 1 January 2018 but without early adoption of prospective standards.

Policies and disclosures not applicable to this specimen draft:

- IAS 20 - 'Accounting for Government Grants and Disclosure of Government Assistance'
- IAS 26 - 'Accounting and Reporting by Retirement Benefit Plans'
- IAS 28 - 'Investments in Associates and Joint Ventures'
- IAS 29 - 'Financial Reporting in Hyperinflationary Economies'
- IAS 33 - 'Earnings per Share'
- IAS 34 - 'Interim Financial Reporting'
- IAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets'
- IAS 41 - 'Agriculture'
- IFRS 1 - 'First time Adoption of International Financial Reporting Standards'
- IFRS 2 - 'Share- based payments'
- IFRS 3 - 'Business Combinations'
- IFRS 4 - 'Insurance Contracts'
- IFRS 5 - 'Non Current Assets Held For Sale and Discontinued Operations'
- IFRS 6 - 'Exploration for and Evaluation of Mineral Resources'
- IFRS 7 - 'Financial Instruments: Disclosures' in respect of derivatives and hedge accounting
- IFRS 8 - 'Segmental reporting'
- IFRS 10 - 'Consolidated Financial Statements'
- IFRS 11 - 'Joint Arrangements'
- IFRS 12 - 'Disclosure of Interests in Other Entities'
- IFRS 14 - 'Regulatory Deferral Accounts'
- IFRS 16 - 'Leases'

Abbreviations

IFRS1. p37	- International Financial Reporting Standard [number], paragraph [number].
IAS7. p22	- International Accounting Standard [number], paragraph [number].
IAS7. p22 VD	- International Accounting Standard [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 - Deposit taking DP - statement of income and expenditure
ECL	- Expected Credit Loss
FVTPL	- Fair Value Through Profit or Loss
FVTOCI	- Fair Value Through Other Comprehensive Income
SPPI	- Solely Payments of Principal and Interest
OCI	- Other Comprehensive Income

Principal authors for and on behalf of ICPAK:
PKF Kenya

Issue date: September 2018

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 OF DIRECTORS	: ……………………….	
	: ……………………….	
SUPERVISORY COMMITTEE	: ……………………….	
	: ……………………….	
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	

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the society.

INCORPORATION

The society 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 ACTIVITIES

The principal activities of the society are ………………………………………………………… IAS1. p138(b)

RESULTS	**2018**	**2017**
	Shs	**Shs**
Profit/(loss) before tax		
Income tax expense		
Profit/loss for the year		
Other comprehensive income/(loss) net of tax		
Total comprehensive income/(loss) for the year		
Interest on members' deposits		

INVESTMENT SHARES

The issued and paid up share capital of the society was increased during the year from Shs. …….. to Shs. ……...

DIVIDENDS AND INTEREST

The directors have recommended payment of ….% (2017: ….%) as dividend on investment shares and paid ….% (2017: ...%) interest on Sacco deposits. IG 6

OR

The directors do not recommend the declaration of a dividend for the year (2017: 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.

INDEPENDENT AUDITOR

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

OR

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

BY ORDER OF THE BOARD

Signature .... Date 2019

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

FINANCIAL AND STATISTICAL INFORMATION

	As at 31 December		
	2018	**2017**	
	Numbers	**Numbers**	
Membership			
- active	x	x	IG 7
- dormant	x	x	SSAD 27.1
	x	x	
Number of branches			
Number of employees			
	Shs	**Shs**	
Financial			
Total assets	x	x	
Members' deposits	x	x	
External borrowings	x	x	
Loans and advance to members	x	x	
Provision for impairment of loans and advances	x	x	
Financial assets	x	x	
Total revenue	x	x	
Total interest income	x	x	
Total expenses	x	x	
Investment shares	x	x	
Statutory reserve	x	x	
Appropriation account	x	x	
Core capital	x	x	
Institutional capital	x	x	
Loan loss reserve	x	x	

Key ratios	**2018**	**2017**	
	%	**%**	
Capital adequacy ratio			
Core capital/ total assets	x	x	SSAD 9 (b)
Minimum ratio	10%	10%	
Core capital/ total deposits	x	x	SSAD 9 (d)
Minimum ratio	8%	8%	
Institutional capital/total assets	x	x	SSAD 9 (c)
Minimum ratio	10%	10%	
External borrowing ratio			
External borrowing/ total assets	x	x	SSAD 35.1
Minimum ratio	25%	25%	
Liquid ratio			
Liquid asset/total deposit and long term liabilities	x	x	
Minimum ratio	15%	15%	
Operating efficiency/loan quality ratio			
Total expenses/total revenue	x	x	
Interest on member deposits/total revenue	x	x	
Interest rate on member deposits	x	x	
Dividend rate on member share capital	x	x	
Total non-performing loans/gross loan portfolio	x	x	

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Sacco Societies Act No. 14 of 2008 requires the directors to ensure that the management maintains proper and accurate records that reflect the true and fair position of the society's financial condition, establish adequate and effective internal control systems and policies, safeguard the assets of the society and take reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for the production of annual audited financial statements.

The directors accept responsibility for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Sacco Societies Act No. 14 of 2008. They also accept responsibility for:

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2018 and of the society's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008.

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

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

Approved by the board of directors on ___________________ 2019 and signed on its behalf by:

___________________________ CHAIRMAN

___________________________ TREASURER

___________________________ BOARD MEMBER

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

Opinion

We have audited the financial statements of Mkopo Savings and Credit Co-operative Society Limited (the society) set out on pages ... to ..., which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the society's financial position as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Sacco Societies Act No. 14 of 2008.

Basis for opinion

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

Key audit matters

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

[Key audit matter 1 title e.g. provision for impairment of loans and advances]

………
………
………
………
………
………
………

[Key audit matter 2 title e.g. IT environment]

………
………
………
………
………
………
………

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

Other information

The directors are responsible for the other information. The other information comprises the report of the directors and financial and statistical information which we obtained prior to the date of this auditor's report, and the [chairman's report, supervisory committee report, sustainability report and corporate social investment report] which are 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 report of the independent auditor, 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 other reports expected to be made to us after date of report of the independent auditor, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the independent auditor to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the independent auditor. However, future events or conditions may cause the society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Certified Public Accountants
Nairobi

___________________________2019

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

	Notes	2018 Shs	2017 Shs	
Revenue				
Interest income:				
Interest on loans and advances	2 (a)			IAS1. p82, IFRS7. p20 b IFRS15. p113
Other interest income	2 (b)			
Total interest income				
Interest expenses	2 (c)			IAS1. p82
Net interest income				
Net fee and commission income	2 (d)			IAS1. p82, IFRS7. p20 c
Other operating income	2 (e)			
Impairment provision	3 (b)			IAS1. p82, IFRS15. p113
Governance expenses	3 (d)			IAS1. p99
Marketing expenses	3 (e)			IAS1. p99
Staff costs	4			IAS1. p99
Other administrative expenses	3 (a)			IAS1. p99
Other operating expenses	3 (c)			IAS1. p99
Profit/(loss) before tax				
Income tax expense	5			IAS1. p82
Profit/(loss) for the year				IAS1. p81A
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				IAS1. p82A
Gains/(losses) on property and equipment revaluation	13			IAS1. p7
Gains/(losses) on equity instruments at FVTOCI	9			IAS1. p7
Deferred tax relating to items that will not be subsequently reclassified				IAS1. p91
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				IAS1. p82A
Gains/(losses) on investments in debt instruments at FVTOCI	9			IAS1. p7
Deferred tax relating to items that may be reclassified				IAS1. p99
Total comprehensive income/(loss) for the year				

STATEMENT OF FINANCIAL POSITION IAS1. p10

	Notes	As at 31 December 2018 Shs	2017 Shs	
				IAS1. p39
ASSETS				IAS1. p63
Cash and cash equivalents	6			IAS1. p54 (i)
Receivables and prepayments	7			IAS1. p54 (h)
Tax recoverable	5 (b)			IAS1. p54 (n)
Loans and advances	8			IAS1. p54 (d)
Other financial assets	9			IAS1. p54 (d),
Inventories	10			IAS1. p54 (g)
Investment property	11			IAS1. p54 (d)
Prepaid operating lease rentals	12			
Assets classified as held for sale	23			
Property and equipment	13			IAS1. p54 (a)
Intangible assets	14			IAS1. p54 (c)
Deferred tax	15			IAS1. p54 (o)
Total assets				
LIABILITIES				IAS1. p63
Interest due to members	16			
Member deposits	17			IAS1. p54 (m)
Borrowings	18			IAS1. p55
Other payables	19			IAS1. p54 (k)
Deferred tax	15			IAS1. p54 (o)
Provision for liabilities	20			IAS1. p54 (l)
Other accrued liabilities	21			IAS1. p54 (l)
Liabilities classified as held for sale	23			
Tax payable	5 (b)			IAS1. p54 (n)
Retirement benefit obligation	22			IAS1. p55
FINANCED BY				
Investment shares	24			IAS1. p54 (r)
Statutory reserve	25(i)			
Appropriation account	25(ii)			
Loan loss reserve	25(iii)			
Fair value reserve	25(iv)			
Dividend account	25(v)			
Revaluation reserve	25(vi)			
Total liabilities and capital				

For prior year adjustments and reclassifications: On the statement of financial position only, a three year financial position will be disclosed i.e. for a PYA passed in the year 2018 the statement of financial position would show comparatives for 2017 and 2016 IAS1. p10

STATEMENT OF CHANGES IN EQUITY IAS1. p10

	Notes	Investment Shares Shs	Statutory Reserve Shs	Fair value Reserve Shs	Appropriation Account Shs	Loan loss reserve Shs	Dividend Account Shs	Revaluation reserve Shs	Total Shs	IAS1. p106
Year ended 31 December 2018										
At start of year										
As previously stated										
Prior year adjustments										
Changes on initial application of IFRS 9	1 (a)									IAS1. p106
As restated										
Total comprehensive income/(loss) for the year:										
- profit/(loss) for the year										
- gain/(loss) on revaluation	13									
- deferred tax on revaluation										
- gains/(losses) on equity instruments at FVTOCI	9									
- deferred tax relating to items that will not be subsequently reclassified										
- gains/(losses) on investments in debt instruments at FVTOCI	9									
- deferred tax relating to items that may be reclassified										
Transfer of excess depreciation	13									
Deferred tax on depreciation transfer										
Transfer to statutory reserve										
Transfer to loan loss reserve account	8									
Transactions with owners:										
Share issued for cash	24									
Dividends:										
- Final for 2017 (paid)	25(v)									
- Interim for 2018 (paid)	25(v)									
- Final for 2018 (proposed)	25(v)									
At end of year										

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 Shs	Statutory Reserve Shs	Fair value Reserve Shs	Revaluation reserve Shs	Appropriation Account Shs	Loan loss reserve Shs	Dividend Account Shs	Total Shs
Year ended 31 December 2017									
At start of year									
As previously stated									
Prior year adjustments									
As restated									
Total comprehensive income/(loss) for the year:									
- profit/(loss) for the year									
- gain/(loss) on revaluation	13								
- deferred tax effect on revaluation									
- gains/(losses) on equity instruments at FVTOCI	9								
- deferred tax relating to items that will not be subsequently reclassified									
- gains/(losses) on investments in debt instruments at FVTOCI	9								
- deferred tax relating to items that may be reclassified									
Transfer of excess depreciation	13								
Deferred tax on depreciation transfer									
Transfer to statutory reserve									
Transfer to loan loss reserve account	8								
Transactions with owners:									
Share issued for cash	24								
Dividends:									
- Final for 2016 (paid)	25(v)								
- Interim for 2017 (paid)	25(v)								
- Final for 2017 (proposed)	25(v)								
At end of year									

IAS1. p106

NB. Transfers between reserves do not constitute other comprehensive income and should be reported on this statement.

STATEMENT OF CASH FLOWS IAS1. p10

	Notes	2018 Shs	2017 Shs
Cash flows from operating activities			
Interest income on loans and advances:	2 (a)		
Other interest income	2 (b)		
Interest payments	16		
Net fee and commission income	2 (d)		
Other operating income	2 (e)		
Recoveries on loans previously written off	8		
Payment to employees and suppliers			
Increase/(decrease) in operating assets			
Loans and advances			
Debtors and prepayments			
Inventories			
Decrease/(increase) in operating liabilities			
Members deposits	17		
Creditors and accruals			
Net cash from operating activities before income taxes			
Income tax paid	5 (b)		
Net cash generated from/(used in) operating activities			
Investing activities			
Cash paid for purchase of property, plant and equipment	13		
Cash paid for purchase of investment properties	11		
Cash paid for in respect of prepaid operating lease rentals	12		
Cash paid for purchase of intangible assets	14		
Cash paid for purchase of financial assets	9		
Proceeds from disposal of property, plant and equipment			
Proceeds from disposal of investment properties			
Proceeds from disposal of financial assets			
Net cash generated from/(used in) investing activities			
Financing activities			
Proceeds from issue of investment shares	24		
Proceeds from: borrowings	18		
Repayments of: borrowings	18		
Dividends paid	25 (v)		
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	6		

NOTES IAS1. p10

1. **Significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. IAS1. p112, 117

a) **Basis of preparation**

The financial statements have been prepared under the historical cost basis, except where otherwise stated in the accounting policies below and are in accordance with International Financial Reporting Standards. The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the society takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 on 'Inventories' or value in use in IAS 36 on 'Impairment of Assets'. IFRS13. p9 IFRS13. p61-67

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

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

Going concern

The financial performance of the society is set out in the report of the directors and in the statement of profit or loss and the other comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk and capital management are set out in note 27 and 28 respectively.

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.

NOTE: IF THERE ARE UNCERTAINTIES IN RELATION TO GOING CONCERN, THESE SHOULD BE DECSRIBED HERE.

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. SSA 41.1

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 a material effect on the financial statements.. More detail may be needed where there is a material effect on these financial statements - refer to IAS 8.28, including early adoption of standards.

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

NOTES (CONTINUED)

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

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

New and amended standards adopted by the society (continued) International IAS 8. p28

Financial Reporting Standards 9 (IFRS 9): Financial Instruments IFRS9. p7.2.15

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

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

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

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the society. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1 (i) and note 27.

(i) Classification and measurement of financial instruments IFRS7.p42I

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount Shs.**	**Measurement category**	**Carrying amount Shs.**
Cash and cash equivalents	Amortised cost		Amortised cost	
Loans and advances	Amortised cost		Amortised cost	
Other financial assets;				
- Held for trading	FVTPL (Held for trading)		FVTPL	
- Available for sale (non-equity	FVTOCI (Available for sale)		FVTOCI	
- Available for sale (equity)	Amortised cost		FVTOCI	
- Held to maturity	Amortised cost		Amortised cost	

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 IFRS7. p42J

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

NOTES (CONTINUED)

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

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

New and amended standards adopted by the society (continued) IAS 8. p28

IFRS 9: Financial Instruments (continued) IFRS9. p7

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 IFRS7. p42J

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31-Dec-17	Reclassification	Remeasurement	IFRS 9 Carrying amount 1-Jan-18
	Shs.	Shs.	Shs.	Shs.
Amortised cost:				
Cash and cash equivalents				
Balance under IAS 39				
Balance under IFRS 9				
Loans and advances				
Balance under IAS 39				
Remeasurement: ECL allowance				
Balance under IFRS 9				
Held to maturity				
Balance under IAS 39				
Remeasurement: ECL allowance				
Balance under IFRS 9				
Available for sale (equity)				
Balance under IAS 39				
Reclassification to FVTCOI				
Balance under IFRS 9				
Fair value through profit or loss:				
Held for trading				
Balance under IAS 39				
Balance under IFRS 9				
Fair value through other comprehensive income:				
Available for sale (non - equity)				
Balance under IAS 39				
Balance under IFRS 9				
Available for sale (equity)				
Balance under IAS 39				
Reclassification from amortised cost				
Balance under IFRS 9				

NOTES (CONTINUED)

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

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

New and amended standards adopted by the society (continued) IAS 8. p28

IFRS 9: Financial Instruments (continued) IFRS9. p7

(iii) Significant and material impacts

- Total provision for impairment of loans and advances increased/ decreased by Shs. XX from Shs. XX as at 31 December 2017 to Shs. XX as at 1 January 2018;
- The loan loss reserve of Shs. XX as at 31 December 2017 has been released to retained earnings on account of the additional IFRS 9 provisions for impairment;
- The impact of the 'classification and measurement' changes is not material to the society, with only Shs. XX increase/decrease to equity in relation to fair valuation of equity investments that were previously carried at amortised cost; and
- Overall decrease in equity due to adoption of IFRS 9 is Shs. XX.

New standards, amendments and interpretations issued but not effective IAS8. p28

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

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amostised cost classification.
- IFRS 16 ‘Leases’ (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement Contains a Lease’ and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

NOTES (CONTINUED)

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

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

New standards, amendments and interpretations issued but not effective IAS8. p28

- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

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

b) **Critical accounting estimates and judgement** IAS 1. p125

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

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

- **Measurement of expected credit losses (ECL):** IFRS9. p5

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

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

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

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

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

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

NOTES (CONTINUED) IAS1. p10

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

b) **Key sources of estimation uncertainty** IAS1. p125

- **Measurement of Expected Credit Losses (ECL) (continued):** IFRS9. p5

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

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

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

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

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

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

d) **Revenue recognition** IAS18. p35

Interest income

Interest income is reocgnised under the effective interest method. The effective interest is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the society estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. IFRS9. p5.4

NOTES (CONTINUED)

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

d) **Revenue recognition (continued)** IAS18. p35

Fee and commission income IFRS7. p20(c)

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

Other income IAS18. p35

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.

e) **Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation (except as stated below). Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use. IAS16. p73(a)

Freehold and leasehold land and buildings are subsequently shown at market value, based on periodic valuations less subsequent depreciation. IAS16. 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. IAS16. 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

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)

NOTES (CONTINUED)

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

e) **Property and equipment (continued)**

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. IAS16. 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. IAS36. 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. IAS16. p68,71

f) **Investment property**

Fair value 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 carried at fair value representing open market value at the reporting date Changes in fair value are recorded in profit or loss. IAS40. p75,76 IAS40. 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. IAS40. 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.

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).

NOTES (CONTINUED)

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

g) **Intangible assets**

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

Computer software

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be ___ years. (State how many years the asset is amortised over). IAS38. p118(a), (b) IAS38. 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 live which is estimated to be ___ years. IAS38. p68,71 IAS38. p118(a), (b)

h) **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. IAS36. 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.

i) **Financial instruments** IFRS7. p21

Financial assets and financial liabilities are recognised when the society becomes a party to the contractual provisions of the instrument. Management determines all classification of financial instruments at initial recognition.

- ***Financial assets*** IFRS9. p4.1.2
  Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

NOTES (CONTINUED)

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

i) **Financial Instruments (continued)** IFRS7. p21

- ***Financial assets (continued)*** IFRS7. p21

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

Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest (SPPI), and that the are not designated at Fair Value Through Profit or Loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'interest and similar income' using the effective interest rate method. IFRS9. p4.1.2

Fair Value Through Other Comprehensive Income (FVTOCI): Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified. IFRS9. p4.1.2A

Fair Value Through Profit or Loss (FVTPL): Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement. IFRS9. p4.1.4

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

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

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

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

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

NOTES (CONTINUED)

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

i) **Financial instruments (continued)** IFRS7. p21

- ***Financial assets (continued)*** IFRS7. p21

  - how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

  - the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

  - how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

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

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

Impairment IFRS7. p35F, IFRS9. p5.5.1

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

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

No impairment loss is recognised on investments measured at FVTPL.

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

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

- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument. (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 27.

NOTES (CONTINUED)

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

i) **Financial instruments (continued)**

- ***Financial assets (continued)*** IFRS7. p21

Impairment (continued) IFRS7. p35F, IFRS9. p5.5.1

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

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

reimburse the holder of the guaranteed debt instrument less any amounts that the society expects to receive from the holder, the debtor or any other party.

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

More information on measurement of ECLs is provided in note 27 (b), including details on how instruments are grouped when they are assessed on a collective basis.

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

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

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

Modification and derecognition of financial assets IFRS9. p32.3

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

NOTES (CONTINUED)

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

i) **Financial instruments (continued)**

Modification and derecognition of financial assets (continued) IFRS9. p32.3

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

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

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

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

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

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

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

- the remaining lifetime PD at the reporting date based on the modified terms.

NOTES (CONTINUED)

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

i) **Financial instruments (continued)**

Modification and derecognition of financial assets (continued) IFRS9. p32.3

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

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

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

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

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

NOTES (CONTINUED)

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

i) **Financial instruments (continued)** IFRS7. p35F

Write-off

Loans and debt securities are written off when the society has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the society determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The society may apply enforcement activities to financial assets written off. Recoveries resulting from the society's enforcement activities will result in impairment gains. IFRS7. p35F, IFRS9. p5.4.4

- ***Financial liabilities***

The society's financial liabilities which include _______,_________,____________________ and fall into the following categories: IFRS7. p35F

- **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: IFRS9. p4.2.1A

  - 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, _____ and ____________. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method. IFRS9. p4.2.1

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 those 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.

Financial liabilities are derecognised when, and only when, the society's obligations are discharged, cancelled or expired. IFRS9. p3.3.1

NOTES (CONTINUED)

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

i) **Financial instruments (continued)** IFRS7. p35F

- **Offsetting financial instruments** IFRS7. p13A

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

j) **Inventories** IAS2. 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.

k) **Cash and cash equivalents** IAS7. p45

For the purposes of the statement of cash flows, 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.

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

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

l) **Investment shares** IAS32. p18(a)

Member interest are classified as equity where the society 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.

m) **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, the excess is recognised as a regulatory credit risk and accounted for as an appropriation of retained profits. These reserve is not distributable.

n) **Dividends** IAS10. p12

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

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

NOTES (CONTINUED)

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

o) **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 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 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.

p) **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. 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 statement of financial position as a finance lease obligation. IAS17. p20 IAS17. p27

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 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.

NOTES (CONTINUED)

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

p) **Accounting for leases (continued)**

The society as lessor (continued)

Assets leased to third parties under operating leases are included in property 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 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.

q) **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

r) **Employee entitlements**

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

s) **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

NOTES (CONTINUED)

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

s) **Retirement benefit obligations (continued)**

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.

t) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the transaction date.

Resulting exchange differences are recognised in profit or loss in the year in which they arise.

u) Comparatives

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

NOTES (CONTINUED)

	2018	2017	
2. **Revenue**	**Shs**	**Shs**	IAS18. p29-35
a) **Interest income on loans and advances:**			IFRS7. p20(b) IFRS15. p114
Retail customers:			
- Mortgage lending			
- Other asset finance			
- Personal loans			
Corporate customers			
Total interest income on member loans and advances			
b) **Other interest income**			IFRS7. p20(b)
Interest income:			
- fair value through profit or loss financial assets			
- fair value through other comprehensive income financial assets			
- financial assets at amortised cost			
c) **Interest expenses**			
i) Statement of profit or loss			SSAD- SOI 4:4.4
Interest expense:			IFRS7. p20(b)
- bank loans			
- members deposits			
- bank overdrafts			
- finance leases			
- other borrowings			
ii) Statement of changes in equity			
Dividend paid during the year			SSAD- SOI 4:4.4
d) **Fee and commission income**			IAS18. p14
Fee and commission income			IFRS7. p20
Service fee			
Appraisal fees			
Other fees			
Commission (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 Societies Act No. 14 of 2008

NOTES (CONTINUED)

	2018 Shs	2017 Shs	
2. e) **Other operating income**			
i) **Other income from core operating activities**			
Dividend income:			IAS18. p29-30
- FVTPL			
- FVTOCI			
Fair value losses/gains			IAS18. p20(a)
- FVTPL			
- FVTOCI			
- investment property			
Profit on disposal of property and equipment			IAS16. p67-68
Profit on disposal of investment property			IAS40. p69
Profit on disposal of financial assets			IAS18. p20(a)
- FVTPL			
- FVTOCI			
Net investment property rental income (Note 11)			
Insurance claims			
Bad debts recovered (Note 8)			
ii) **Income from non-core operating activities**			SSAD- SOI 9
Business development services			
Consulting services			
Commissions 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

f) **Total revenue from contracts with customers**			IFRS15. p113
Interest income (Note 2(a))			
Fee and commission income (Note 2(d))			
Total revenue from contracts with customers			

3. **Operating surplus before tax**	2018 Shs	2017 Shs	
The following items have been charged in arriving at net operating surplus:			
a) Administration expenses			SSAD- SOI 7:7.5
Travelling and subsistence			
Printing and stationery			
Ushirika day celebrations			
Computer expenses			
Supervision fees to the Commissioner			
Auditors’ remuneration			
Legal fees			
Impairment of property and equipment			
Donations			

NOTES (CONTINUED)

3. **Operating surplus before tax (continued)**	**2018** **Shs**	**2017** **Shs**	
The following items have been charged in arriving at net operating surplus:			
b) Impairment provision			
c) Other operating expense			SSAD- SOI 7:7.5
Rates and rent			SSAD- SOI 7:7.4
Water, fuel and electricity			
Insurance expenses – Property only			
Repair and maintenance			
Depreciation on property and equipment			
Amortisation of intangible assets			
Amortisation of prepaid operating lease rentals			
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) Governance expenses (member related costs)			SSAD- SOI 7:7.2
Board meetings			
Members education			
Sitting allowance			
AGM expenses			
e) Marketing expenses			SSAD- SOI 7:7.3
Public relations and advertisements			
Product development and promotion			

4. **Staff costs**	**2018** **Shs**	**2017** **Shs**	IAS19. p142
Staff leave accrual (Note 21)			
Pension costs:			IAS19. p46
- defined contribution scheme			
- defined benefit scheme (Note 22)			
- National Social Security Fund			
- other post employment benefits			

NOTES (CONTINUED)

5. a) **Tax**

	2017 Shs	2018 Shs	
Current tax			IAS12. p80 (a)
Deferred tax charge/(credit) (Note 15)			IAS12. p80 (c)
(Over)/under provision in prior years on:			IAS12. p80 (b)
- current tax			IAS12. p80 (b)
- deferred tax			IAS12. p80 (b)
Tax charge/(credit)			

	2017 Shs	2018 Shs	
The tax on the society's profit/(loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:			IAS12. p81 (c)
Profit/(loss) before tax			
Tax calculated at a tax rate of 30% (2017: 30%)			IAS12. p81 (c)
Tax effect of:			IAS12. p81 (c)
- expenses not deductible for tax purposes			
- income not subject to tax			
- utilisation of previously unrecognised tax losses			IAS12. p80 (e)
- tax losses on which no deferred tax has been recognised			
- (over)/under provision in prior years			IAS12. p80 (b)
- deferred tax expense/(income) resulting from changes in tax rates			IAS12. p81 d
Tax charge/(credit)			
Effective rate of tax			IAS12. p86

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

The tax charge above is analysed as follows:

	2017 Shs	2018 Shs	
Tax charged to:			IAS12. 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).

b) **Tax (payable)/recoverable**

	2017 Shs	2018 Shs
At start of year		
Income tax expense		
Tax paid		
At end of year		

NOTES (CONTINUED)

6. **Cash and cash equivalents**	**2018 Shs**	**2017 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 ….% (2017: ….%).

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

	2018 Shs	**2017 Shs**	
Cash and bank balances			IAS7. p8
Financial assets maturing within 91 days (Note 9)			
Bank overdraft (Note 18)			
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.

As at 31 December 2018 bank balances amounting to Shs. ____________ are held with financial institutions that are under statutory management

7. **Receivables and prepayments**	**2018 Shs**	**2017 Shs**	
Prepayments			
Other receivables			
Receivables from related parties (Note 26 (iv))			

Movement in impairment provisions			IFRS7. p20(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 30 days are considered past due.

The above period will differ from society to society

As of 31 December 2018, receivables amounting to Shs…...(2017: …….) 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: IFRS7. p37(a)

	2018 Shs	2017 Shs
(Anything above credit period and analyse accordingly as applicable)		
3 to 12 months		
Over 12 months		

8. Loans and advances

		2018 Shs	2017 Shs
Loans and advances to customers at amortised cost	(i)		
Less impairment provision	(ii)		
Total loans and advances to customers			

(i) **Loans and advances to customers at amortised cost** IFRS7R. p8(f)

	2018 Gross amount Shs	2018 ECL allowance Shs	2018 Carrying amount Shs	2017 Gross amount Shs	2017 Loss provision Shs	2017 Carrying amount Shs
Retail customers						
Mortgage lending						
Other asset finance						
Personal loans						
Corporate customers						

NOTES (CONTINUED)

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

The impairment provision includes the following:-

	Provisions as per statutory regulations	Provisions as per IFRS 9	Transfer to/(from) statutory loan reserves
Loans and advances to customers: Mortgages			
Loans and advances to customers: Other asset finance			
Loans and advances to customers: Personal loans (unsecured)			
Loans and advances to customers: Corporate lending			
	-	-	-

Statutory provisions are analysed as follows:	2018 Shs	2017 Shs
0 Days (Performing - 1%)		
1- 30 Days (Watch - 5%)		
31 - 180 Days (Substandard - 25%)		
181- 360 Days (Doubtful - 50%)		
Over 361 Days or 12 Installments over due (Loss Account - 100%)		
	-	-

SSAD 44.1

(ii) **IFRS 9 provisions**

IFRS7R. p35 H

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2018 is shown below; comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
	Shs	Shs	Shs	Shs	Shs
At start of the year					
Changes in the gross carrying amount;					
- Transfer to stage 1					
- Transfer to stage 2					
- Transfer to stage 3					
- Write-offs					
- Recoveries of amounts previously written off					
- Changes due to modifications that did not result in derecognition					
Net reameasurement of impairment provision					
New financial assets originated or purchased					
Financial assets that have been derecognised					
Changes in models/risk parameters					
At end of year	-	-	-	-	-

NOTES (CONTINUED)

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

The society has a loan guard 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.

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 is …..% (2017: …..%)

Loans to insiders SAS- 42(a)

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

	2018 Shs	**2017 Shs**
Total loans advanced during the year		
Total loans outstanding at the end of the year:		
Loan to key management		
Loans to directors		
Loan to supervisory committee members		
Loan to other employees		
Total loans		

9. **Other financial assets**

Financial assets comprise the following:	**2018 Shs**	**2017 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:

Institution A		
Institution B		
Others		

NOTES (CONTINUED)

9. **Other financial assets (continued)**	**2018 Shs**	**2017 Shs**
b) **Fair value through other comprehensive income**		
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:		
Institution A		
Institution 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		
Institution A		
Institution B		
Others		
c) **Amortised cost**		
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 6)		
Maturing after 91 days		
Total other financial assets		

NOTES (CONTINUED)

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

During the year the society transferred gains/(losses) amounting to Shs. …. (2017: Shs. ….) from equity into retained earnings included in this amount is a loss of Shs. …. (2017: Shs. ….) relating to impairment of 'FVTCOI' 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. 2017:__% (2017 :……%).

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

None of the financial assets is either past due or impaired.

The fair valuations of the financial assets are classified into fair value levels as follows:

IFRS13. p93

Year ended 31 December 2018	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Fair value through profit or loss				
Fair value through other comprehensive income				

Year ended 31 December 2017	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Fair value through profit or loss				
Fair value through other comprehensive income				

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 discounted cash flow analysis with the more significant inputs being the discount rate that reflects the credit risk of counter parties IFRS13. p97 IFRS13. p93(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. IFRS7. p36(a)

Management monitors the credit quality of financial assets by: IFRS7. p33
- 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. IFRS7. p9(a)

None of the financial assets are impaired.

Additional notes for financial assets measured at amortised cost (tailor as necessary):

The society has not reclassified any 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.

NOTES (CONTINUED)

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

There were no gains or losses arising from the disposal of financial assets measured at amortised cost during the years ending 31 December 2018 and 2017 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

	2018 Shs	2017 Shs
Opening balance		
Total gains or losses:		
- in profit or loss		
- in other comprehensive income		
Purchases		
Issues		
Disposals/settlements		
Transfers out of level 3		
Closing balance		

10. **Inventories**

Consumables			IAS 2.36(b)
Less: impairment provisions			

11. **Investment property**

	2018 Shs	2017 Shs	
Fair value model - This heading should not be included			IAS. 40p76
At start of year			
Transfers from/(to) property 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 company 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)

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.

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

NOTES (CONTINUED)

11. **Investment property (continued)**

OR

Cost model- The heading should not be included

Year ended 31 December 2018	**Freehold land Shs**	**Buildings Shs**	**Total Shs**	IAS 40. p79
Cost				
At start of year				
Transfers from/(to) property and equipment (Note 13)				
Additions				
Disposals				
At end of year				
Accumulated depreciation				
At start of year				
On disposal				
Charge for the year				
At end of year				
Net book value				
Fair value				

	Freehold land Shs	**Buildings Shs**	**Total Shs**
Year ended 31 December 2017			
Cost			
At start of year			
Transfers from/(to) property, plant and equipment (Note 13)			
Additions			
Disposals			
At end of year			
Accumulated depreciation			
At start of year			
Charge for the year			
On disposal			
At end of year			
Net book value			

NOTES (CONTINUED)

11. **Investment property (continued)**

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

	2018 Shs	2017 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)			IAS40. p75(f)

Impairment losses amounting to Shs. ___ have been recognised in profit or loss under establishment expenses. IAS36. p126(a)

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under establishment expenses. IAS36. 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. IAS36. p130

12. **Prepaid operating lease rentals**	2018 Shs	2017 Shs
Cost		
At start of year		
Additions		
Disposals		
At end of year		
Accumulated amortisation		
At start of year		
On disposals		
Charge for the year		
At end of year		
Net book value		

NOTES (CONTINUED)

13. **Property and equipment**

Year ended 31 December 2018

	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 23)									
Surplus on revaluation									
At end of year									
Comprising									
Cost									
Valuation									
Accumulated depreciation									
At start of year									
On disposals									
Reversal of accumulated depreciation on revaluation									
Transfer to disposal group - classified as held for sale (Note 23)									
Charge for the year									
At end of year									
Net book value									

IAS16. p73 (d), (e)

NOTES (CONTINUED)

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

Year ended 31 December 2017

	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 23)									
Surplus on revaluation									
At end of year									
Comprising									
Cost									
Valuation									
Accumulated depreciation									
At start of year									
On disposals									
Reversal of accumulated depreciation on revaluation									
Transfer to disposal group - classified as held for sale (Note 23)									
Charge for the year									
At end of year									
Net book value									

IAS.16
p73 (d), (e)

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 18. IAS16. p74(a)

Freehold land, buildings and plant and machinery 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 and on replacement cost for plant and machinery. 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. IAS16. p77 (a)-(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 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 and 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 below presents the changes in the carrying value of the property and equipment arising from these fair valuation assessments.

The fair value of the various classes of property and equipment are as follows: IAS16. p79 VD

	2018 Shs	2017 Shs
Buildings		
Plant and machinery		
Motor vehicles		

If the freehold land, buildings and plant and machinery were stated on the historical cost basis, the amounts would be as follows:

	Other assets Shs	Freehold land Shs	Buildings Shs	Plant and machinery Shs	Total Shs
Year ended 31 December 2018					
Cost					
Accumulated depreciation					
Net book value					
Year ended 31 December 2017					
Cost					
Accumulated depreciation					
Net book value					

During the year, the society has capitalised borrowing costs amounting to Shs. ………. (2017: Shs. ….) on qualifying assets. Borrowing costs were capitalised at a weighted average rate of its general borrowings of Shs ……. IAS23. p26(a)

IAS7. e, i

	2018 Shs	2017 Shs
Reconciliation of additions during the year		
Additions acquired by cash payments		
Additions acquired through borrowings		

NOTES (CONTINUED)

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

OR

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

Included in property, plant and equipment are the following assets where the society is a lessee under a finance lease: IAS16. p74(a)

	Motor vehicles Shs	Plant and machinery 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. IAS16. p79(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. IAS16. p79(c) VD

The gross carrying amount of fully depreciated property and equipment amounted to Shs._________. IAS16. p79(b) VD

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

Property and equipment transferred to the disposal group classified as held-for-sale amounts to Shs ………. and relates to assets that are used by branch. See note 23 for further details regarding the disposal group-held-for-sale IAS16. p73(e) (ii)

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. IAS36. p126(a)

Impairment losses amounting to Shs. ___ (2017: Shs….) have been recognised in profit or loss under operating expenses.

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under other operating expenses. IAS36. p126(b)

Impairment losses on revalued assets amounting to Shs. ___ have been recognised in other comprehensive income. IAS36. p126(c)

Impairment losses on revalued assets previously recognised amounting to Shs. ___ have been recognised in the statement of changes in equity. IAS36. 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. IAS36. p130

NOTES (CONTINUED)

14. **Intangible assets**

Year ended 31 December 2018	**Software costs Shs**	**Patents and trademarks Shs**	**Total Shs**	IAS38. p118 c
Cost				
At start of year				
Additions				
Transfer to disposal group classified as held for sale (Note 23)				
At end of year				
Accumulated 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				

Year ended 31 December 2017	**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			
Accumulated 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. IAS38. p122(d)

Intangible assets with a cost of Shs._________ have been fully amortised. IAS38. 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 other operating expenses. IAS36. p126(a)

NOTES (CONTINUED)

14. **Intangible assets (continued)**

Impairment losses previously recognised amounting to Shs. ___ have been reversed in profit or loss under other operating expenses. IAS36. 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. IAS36. p130

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….. IAS38. p128(B) VD

Intangible assets transferred to the disposal group classified as held-for-sale amounts to Shs….. and relates to assets that are used by branch. See note 23 for further details regarding the disposal group held for sale IAS38. p118(e)

15. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%) on temporary differences other than fair value gains on financial assets and investment property which apply a rate of 5% (2017: 5%) as the rate for capital gains tax. The movement on the deferred tax account is as follows:

	2018 Shs	2017 Shs	
At start of year			
Charge/(credit) to profit or loss (Note 5)			IAS12. p80(c)
Charge/(credit) to other comprehensive income			IAS12. p81(a)
At end of year			

Deferred tax (assets)/liabilities in the statement of financial position, deferred tax charge/(credit) to other comprehensive income and deferred tax charge/(credit) in profit or loss are attributable to the following items: IAS12. p81(g)

Deferred tax (assets)/ 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 and equipment				
- revaluation				
Investment property at fair value				
Other financial assets carried at fair value				
Provisions				
Retirement benefit obligations				
Other timing differences				

16. **Interest due to members**

	2018 Shs	2017 Shs
At the start of the year		
Provisions for the year		
Payments during the year		
At end of year		

NOTES (CONTINUED)

17. **Members' deposits**

	2018 Shs	2017 Shs	
Savings deposits			
At the start of the year			
Contributions during the year			
Withdrawals/refunds during the year			
Short term deposits			
At the start of the year			
Deposits during the year			
Withdrawals/refunds during the year			
Fixed deposits account			
At the start of the year			
Deposits during the year			
Withdrawals/refunds during the year			
Non withdrawable			
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		2018	2017
Name	Shares held	%	%
Member 1	....		
Member 2	....		
Others	....		

OR

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

18. **Borrowings**

	2018 Shs	2017 Shs	
The borrowings are made up as follows:			IFRS7. p8F
Non-current			
Bank borrowings			
Borrowings from related parties (Note 26 (vii))			
Other borrowings			
Finance leases			
Current			
Bank overdraft (Note 6)			
Bank borrowings			
Borrowings from related parties (Note 26 (vii))			
Other borrowings			
Finance leases			
Total borrowings			

NOTES (CONTINUED)

18. **Borrowings (continued)**

Reconciliation of liabilities arising from financing activities:	**Borrowings Shs**	**Finance leases Shs**	**Total Shs**	IAS7. p44a
Year ended 31 December 2018				
At start of year				
Interest charged to profit or loss				IAS23-p29
Borrowing costs capitalised during the year				
Cash flows:				
- Operating activities (interest paid)				
- Proceeds from long-term borrowings				
- Repayments of long-term borrowings				
- Repayments under finance leases				
At end of year				
Year ended 31 December 2017				
At start of year				
Interest charged to profit or loss				
Borrowing costs capitalised during the year				
Cash flows:				
- Operating activities (interest paid)				
- Proceeds from long-term borrowings				
- Repayments of long-term borrowings				
- Repayments under finance leases				
At end of year				

The borrowings are secured by the following: IFRS7.14
a) …………………..
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 reprising dates at the reporting date are as follows: IFRS7.p31

NOTES (CONTINUED)

18. **Borrowings (continued)**

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	Total assets	Excess
	Shs	Shs	Shs
Borrowing from Bank A Ltd............		....	....

The above limit has been waived by SASRA after successfully 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 exceeding 25% of the total assets.

	2018	**2017**	
	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:	**2018**	**2017**	
	%	**%**	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 that charged by external borrowers. SSAD 35.4

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. IFRS7. p29(a)

OR

In the opinion of the directors, the carrying amounts of short-term borrowings and lease obligations approximate to their fair value. IFRS7. p25

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 IFRS7. p29(a)

The carrying amounts of the society's borrowings are denominated entirely in Kenya Shillings. IFRS7. p31 IFRS7. p34(c)

NOTES (CONTINUED)

18. **Borrowings (continued)**

	2018 Shs	2017 Shs	
Maturity based on the repayment structure of non-current borrowings (excluding finance lease liabilities) is as follows:			IFRS7. p39
Between 1 and 2 years			
Between 2 and 5 years			
Over 5 years			
Gross finance lease liabilities - minimum lease payments			IFRS7. p31 IAS17. p31(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			IAS17. p31(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) ……………………………………..

Borrowings from this institution amounted to Shs…… (2017: Shs………) as at the reporting date. Interest payable of Shs. …. (2017: Shs….) remained unpaid as at 31 December 2018. These amounts have been paid by …and the management expects to meet all/not meet all contractual obligations in the future.

Undrawn facilities as at the reporting date were as follows:	2018 Shs	2017 Shs	IFRS7. p50(a)
Bank borrowings			
Bank overdraft			
Borrowings from related parties			
Finance lease liabilities			
Other borrowings			

The society 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 society.

NOTES (CONTINUED)

19. **Other payables**

	2018 Shs	2017 Shs	
Non-current			IAS1. p77
Trade payables			
Accruals			
Other payables			
Payable to related parties (Note 26 (v))			IAS24. p17
Current			
Trade payables			
Accruals			
Other payables			
Payable to related parties (Note 26 (v))			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: IFRS7. p39(b)

Year ended 31 December 2018

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

Year ended 31 December 2017

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

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

NOTES (CONTINUED)

19. **Other payables (continued)**

	2018 Shs	2017 Shs
Within three months		
Three to twelve months		
Between one and two years		
Over two years		

The maturity of non-current payables is as follows: IFRS7p.39(a)

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

20. **Provisions for liabilities**

IAS37. p84(a-e)

	Gratuity Shs	Others Shs	Total Shs
At start of year			
Unused amounts reversed			
Additional provisions during the year			
Transfer to disposal group classified as held-for-sale (Note 23)			
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. IAS37. p85

. **Provision for interest for members deposits**	2018 Shs	2017 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 .... % (2017:......%) interest on members deposits.

A brief explanation relating to the provisions made needs to be disclosed including any action taken by the directors of the entity. IAS37. p85(a) IAS37. p85(b)

NOTES (CONTINUED)

21 **Other accrued liabilities *(e.g. provision for outstanding leave days)***	**2018 Shs**	**2017 Shs**	
			IAS37. p84(a-e)
At start of year			
Charge/(credit) to profit or loss (Note 4)			
Transfer to disposal group classified as held for sale (Note 23)			
At end of year			
Analysed as			
- current portion			
- non-current portion			

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:

	2018 Shs	**2017 Shs**	
Present value of funded obligations			IAS19-120A f
Fair value of scheme assets			
Present value of unfunded obligations /(over-funding)			
Liability/asset in the statement of the financial position			

The movement in the present value of the defined benefit obligation was as follows:	**2018 Shs**	**2017 Shs**	IAS19-120A c
At start of year			
Current service cost			
Interest cost			
Actuarial losses/(gains)			
Benefits paid			
Past service costs			
At end of year			

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

	2018 Shs	**2017 Shs**
At start of year		
Expected return on plan assets		
Actuarial losses/(gains)		
Employer contributions		
Employee contributions		
Benefits paid		
At end of year		

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:

IAS 19-120A j

Plan assets comprise:	2018 Fair value Shs	2018 Expected return %	2017 Fair value Shs	2017 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

	2018 Shs	2017 Shs
Current service cost		
Interest cost		
Expected return on scheme assets		
Past service costs		
Net charge for the year included in employee expense (Note 4)		

IAS 19-120A g

Of the total charge, Shs………(2017: Shs………..) is included in cost of sales, and Shs………. (2017: Shs………) in administrative expenses. IAS 19-120A g

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

	2018 Shs	2017 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)

	2018 %	2017 %
Discount rate		
Expected return on scheme assets		
Future salary increases		
Future pension increases		

The following table analyses the history of experience adjustments. IAS 19-120A(p)

Society	2018 Shs	2017 Shs	2016 Shs	2015 Shs	2014 Shs
Present value of the defined benefit					
Fair value of the plan assets					
Surplus/(deficit) at end of year					
Experience adjustments on plan liabilities					
Experience adjustments on plan assets					

NOTES (CONTINUED)

23. **Assets and liabilities classified as held for sale** IFRS5. IN6b

Assets of ____ branch have been held for sale following approval by the society's directors on ____.

	2018	2017	
	Shs	Shs	
Assets			IFRS5. p38
Property, plant and equipment			
Intangible assets			
Other current assets			
Liabilities			
Trade and other payables			
Other current liabilities			
Provisions			IFRS 5. p38

NB: The total of assets will not match the total of liabilities
NB: - assets held for sale are NOT depreciated IFRS 5. IN6d

24. **Investment shares**

	No of shares	Shs	
			IAS1. p79(a)
At start of year			
Bonus issue of shares from retained earnings			
Interest/dividend 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 ……………2018, a bonus issue of one share for every ……. shares held was made by capitalising Shs ………. from retained earnings. A total of ……….shares were issued. IAS1. p79(a)

On ……………2018, a bonus issue of one share for every ……. shares held was made by capitalising Shs ………. from retained earnings/proposed dividend account. A total of ……….shares were issued. IAS1. p79(a)

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

Name	Shares held	%
Member 1	....	
Member 2	....	
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 2018

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

NOTES (CONTINUED)

25. **Reserves**

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

	2018 Shs	2017 Shs	
i) **Statutory reserve**			SSAD Form 1 (1.1.2)
ii) **Appropriation account**			SSAD 44
iii) **Loan loss reserve**			SSAD 44
iv) **Fair value reserve**			

v) **Dividend account** — SSAD 21.4/21.5

The directors propose a final dividend of Shs …….. per share (2017: Shs …... ……… per share) amounting to a total of Shs ………… (2017: Shs …………...). — IAS1. p107; IAS1. p137(a)

During the year, an interim dividend of Shs .... per share (2017: Shs........... per share), amounting to a total of Shs............. (2017: Shs……….) was paid. The total dividend for the year is therefore Shs..... per share (2017: Shs ...... per share) amounting to a total of Shs.......... (2017: Shs…...). — IAS1. p107; IAS1. p137(a)

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

vi) **Revaluation reserve**

- Freehold land
- Leasehold land
- Buildings

The movement on the revaluation reserve is as follows:

	2018 Shs	2017 Shs
Freehold land		
At start of year		
Revaluation surplus		
Deferred tax on revaluation surplus		
At end of year		
Leasehold land		
At start of year		
Revaluation surplus		
Transfer of excess depreciation		
At end of year		
Buildings		
At start of year		
Revaluation surplus		
Transfer of excess depreciation		
At end of year		

NOTES (CONTINUED)

26. **Related party transactions and balances**

	2018 Shs	2017 Shs	
The following transactions were carried out with related parties:			IAS1. p138(c)
i) **Insider deposits**			IAS24. p16
Total deposits and savings outstanding at end of year:			
Due to key management			IAS19. p47
Due to directors			
Due to supervisory committee members			
Due to other employees			
	-	-	
ii) **Key management personnel compensation**			IAS24. p16
Short term employee benefits			
Post employment benefits			IAS19. p47
Other long term benefits			
Termination benefits			
Share based payments			
	-	-	
iii) **Loans/advances to/from related parties**			
At start of year			
Advances			
Interest charged/(credited)			
Repayments			
At end of year (Note 7/18)			
Loans/advances to related parties can be analysed as follows:			
Directors			
Supervisory committees Key management personnel			
Loans to other employees			

The advances to/from related parties are subject to interest at __ % p.a/interest free, have no specific dates of repayment and are unsecured/secured over______ IAS24.p17.(b)

	2018 Shs	2017 Shs
iv) **Receivable from related parties;**		
(through common shareholding/directorship)		
At the start of the year		
Disbursements		
Payments		
At the end of the year		
v) **Payable to related parties;**		
(through common shareholding/directorship)		
At the start of the year		
Write off/Payments		
At the end of the year		

NOTES (CONTINUED)

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

IAS 24 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 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 2018 is Shs………… (2017: Shs………..). IAS24. p20(h)

During the year, the society provided impairment losses amounting to Shs… (2017: Shs………) relating to related party balances carried at amortised cost. 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 society's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. 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*

IFRS7. p33(a)
IFRS7. p33(b)
IFRS7. p22(c)

The society's exposure to interest rate risk arises from borrowings and financial assets. Loan and advances and members deposits are fixed interest securities and therefore not susceptible to market interest rate changes.

Financial assets and liabilities advanced and obtained at different rates expose the society to interest rate risk. Financial assets and liabilities obtained at fixed rates expose the society to fair value interest rate risk, except where the instruments are carried at amortised cost. The society maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

NOTES (CONTINUED)

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

The table below summarises the effect on post-tax profit had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1percentage point, the effect would have been the opposite. IFRS7. p40 IFRS7IG. p36

	2018 Shs	2017 Shs
Effect on profit (decrease)/increase		

OR

At 31 December 2018, if interest rates at that date had been 1 percentage point lower *(that is say 10% to 9% per annum)* with all other variables held constant, post-tax profit for the year would have been Shs. ____ (2017: Shs.____) higher, arising mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been Shs. ____ (2017: 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. _____ (2017: Shs. _____) lower, arising mainly as a result of higher interest expense on variable borrowings, and other components of equity would have been Shs. _____ (2017: 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 2018 than in 2017 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. IFRS7. p41

- *Price risk*

The society is exposed to equity securities price risk because of investments held by the society and classified on the statement of financial position either as FVTOCI or FVTPL. The society is not exposed to commodity price risk (as applicable). To manage its price risk arising from ______________________, the society diversifies its portfolio (as applicable). Diversification of the portfolio is done in accordance with the limits set by the society. IFRS7. p33(a) IFRS7. p33(b)

Example:

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

The table below summarises the impact of increases/decreases of the NSE on the society's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the group's equity instruments moved according to the historical correlation with the index: IFRS7. p40 IFRS7IG. p36

	Impact on profit for the year		**Impact on other comprehensive income**	
Index	**2018 Shs**	**2017 Shs**	**2018 Shs**	**2017 Shs**
NSE	xx	xx	xx	xx

NOTES (CONTINUED)

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

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

- *Price risk*

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. IFRS7. p41

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

(b) **Credit risk** IFRS7. p35A

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

Credit risk management

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

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

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

Significant increase in credit risk IFRS7. p35F(a)
IFRS9. p5.5.13

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

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

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

IFRS7. p35A
IFRS7. p35Fa,
IFRS9. p5.5.13

Significant increase in credit risk (continued)

Internal credit risk rating

SSA 41.2,
IFRS7. p35Ga

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

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

To aid credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty society and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

The society' grading systems is based on the basic principles issued by the regulatory authority SASRA on the basis that the periods are largely consistent with the IFRS presumptions on stages of credit products. In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis.

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

(1) **Performing loans**, being loans which are well documented and performing according to contractual terms. Such loans are considered under stage 1 - no significant increase in credit risk for purposes of the ECL calculation;
(2) **Watch loans**, being loans whose principal or interest have remained un-paid for one day to thirty days or where one installment is outstanding for less than 30 days. Such loans are also classified as stage 1 for purposes of the ECL calculation;
(3) **Substandard loan**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six installments have remained outstanding. Under this category, loans past due between 31 - 90 days (or 2-3 pending installments) are classified within in stage 2 - significant increase in credit risk for purposes of the ECL calculation. Loans aged beyond 90 days are classified as stage 3 - credit impaired;
(4) **Doubtful loans**, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve installments have remained outstanding. Such loans are classified as stage 3 for purposes of the ECL calculation; and
(5) **Loss loans**, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve installments have remained outstanding. Such loans are also classified as stage 3 for purposes if the ECL calculation.

NOTES (CONTINUED)

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

(b) **Credit risk (continued)** IFRS7. p35A

Significant increase in credit risk (continued) IFRS7. p35Fa, IFRS9. p5.5.13

Internal credit risk rating (continued)

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

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

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

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

Incorporation of forward-looking information

IFRS7. p35G a,b

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

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

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

- GDP Growth
- Unemployment rates
- Interest rates
- Inflation
- Property price indices

NOTES (CONTINUED)

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

(b) **Credit risk (continued)** IFRS7. p35A

Significant increase in credit risk (continued) IFRS7. p35Fa, IFRS9. p5.5.13 IFRS7. p35G a,b

Incorporation of forward-looking information (continued)

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

Measurement of ECL

The key inputs used for measuring ECL are:

• probability of default (PD);

• loss given default (LGD); and

• exposure at default (EAD).

Total			

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

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

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and the calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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

NOTES (CONTINUED)

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

(b) **Credit risk (continued)** IFRS7. p35A

Significant increase in credit risk (continued)
Incorporation of forward-looking information (continued)

IFRS7. p35Fa, IFRS9. p5.5.13 IFRS7. p35G a,b

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

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

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as: IFRS9.B5.5.5

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

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

Credit quality

IFRS7. p34

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

NOTES (CONTINUED)

(b) **Credit risk (continued)** IFRS7. p35A

Credit quality (continued) IFRS7. p34

	Mortgages	Other asset finance	Personal loans	Corporate lending	Total loans
Loans and advances to customers					
0 Days (Performing, stage 1)					
1- 30 Days (Watch, stage 1)					
31 - 180 Days (Substandard, stage 2)					
181- 360 Days (Doubtful, stage 3)					
Over 361 Days (Loss Account, stage 3)					

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

Loans and advances to customer at amortised cost	Stage 1 12 Months ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total Shs
Mortgage lending				
Other asset finance				
Personal loans				
Corporate				
Total gross credit exposure				
Impairment provision				
Net credit exposure				
Loan commitments and guarantees				
Loan commitments				
Guarantees				
Total gross credit exposure				
Impairment provision				
Net credit exposure				

NOTES (CONTINUED)

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

Collateral held as security IFRS7. p35Kb

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

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

Repossessed Collateral IFRS7. p38

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:

	2018	**2017**
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 the outstanding indebtedness. Repossessed property is classified within 'other assets'.

(c) **Liquidity risk**

Cash flow forecasting is performed by the finance department monthly by monitoring the society's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the society does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. IFRS7. p34

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. IFRS7. p39(a),(b)

Notes 18 and 19 disclose the maturity analysis of borrowings and other payables.

NOTES (CONTINUED)

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

(c) **Liquidity risk (continued)**

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

Year ended 31 December 2018 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						
- Interest due to members						
- Member deposits						
- Borrowings						
Non-interest bearing liabilities						
- Interest due to members						
- Member deposits						
- Borrowings						

Year ended 31 December 2017

	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						
- Interest due to members						
- Member deposits						
- Borrowings						
Non-interest bearing liabilities						
- Interest due to members						
- Member deposits						
- Borrowings						

Note that the table above is meant to present undiscounted analysis - i.e. including interest that will be payable in each year until date of maturity for interest bearing liabilities. For this reason, the total above will not agree to the statement of financial position.

NOTES (CONTINUED)

28. **Capital management** IAS1. p135

Internally imposed capital requirements

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

The capital structure of the society consists of net debt calculated as sum of total borrowings and member's deposit (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising investment shares, reserves and appropriation account). The directors reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In order to maintain the capital structure, the society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The society's overall strategy remain unchanged from 2017. IAS1. p135(c)

The debt-to-capital ratios at 31 December 2018 and 2017 were as follows:

The above is just an example of how this note can be tailored. The group's objectives can be tailored/amended as required.

Capital management (continued)	**2018 Shs**	**2017 Shs**	
Total borrowings (Note 18)			
Total members deposits (Note 17)			
Less cash and cash equivalents (Note 6)			
Net debt			
Total equity			IAS1. p135(b)
Gearing ratio			

It is not mandatory to compute a gearing ratio.

NOTES (CONTINUED)

28. **Capital management (continued)**

Externally imposed capital requirements IAS1. p135 d

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

- 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 Societies Act No. 14 of 2008. has issued certain restriction on borrowing. Refer to note 18 on borrowings on the restrictions.

The ratios at 31 December 2018 and 2017 were as follows:	2018 Shs	2017 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. p135d,e
SASRA are aware of this breach and _________________________ IAS1. p135 d,e

NOTES (CONTINUED)

29. **Contingent liabilities**

The society had given guarantees amounting to Shs.......... .... (2017: 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 8. p36

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

30. **Commitments**

Contractual commitments for the acquisition of property and equipment

At the reporting date these commitments were as follows:

	2018 Shs	2017 Shs	
Property 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 IAS17. p35

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

	2018 Shs	2017 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 and equipment under cancellable operating leases. To terminate this lease the society must give a notice of ___ months. The expenditure to lease this property and equipment amounted to Shs. …. (2017: Shs…) and is included under ________ (indicate heading of expense where included).

NOTES (CONTINUED)

31. **Commitments**

Operating lease commitments - the society as a lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows: IAS10. p21 IAS10. p22(f) IAS33. p71(e)

	Society	
	2018	**2017**
	Shs	**Shs**
Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		

IAS1. p138(a)

During the year, the society received Shs. …(2017: Shs….) as contingent rent. The society leases property and equipment under various agreements. These agreements expire between____ to ______ years and do not include/include and extension option. IAS1. p36

32. **Events after the reporting period**

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

On 15 January 2019, the premises of XYZ Branch were damaged by fire. Insurance claims are in process, the cost of renovation is currently expected to exceed the claim recoverable by Shs…………… IAS1. p51 IAS21. p9,17,18

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.

33. **Incorporation**

Mkopo Savings and Credit Co-operative Society Limited is registered in Kenya under the Sacco Societies Act No. 14 of 2008 as Savings and Credit Co-operative Society and is domiciled in Kenya.

34. **Period of reporting**

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.

35. **Functional and presentation currency**

The financial statements are presented in Kenya shillings, which is also the Society's functional currency. Except as otherwise indicated, financial information presented in Kenya shillings (KShs) has been rounded to the nearest thousand.

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