

**CS/NO. 3468**

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

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**mazars**

**CONTENTS**

	<b>PAGE</b>
Society information	1
Chairman's statement	2 - 4
Comparative performance highlights	5
Report of the directors	6
Corporate governance statement	7
Financial and statistical information	8
Statement of directors' responsibilities	9
Report of the independent auditor	10 - 13
Financial statements:	
Statement of profit or loss and other comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement of cash flows	17
Notes	18 - 50

**SOCIETY INFORMATION**

<b>BOARD OF DIRECTORS</b>	: Vitalis Opapo	- Chairman
	: Andrew Gisore	- Vice Chairman
	: Mercy Wesutilla	- Hon. Secretary
	: Daniel Nzuki	- Treasurer
	: Kenneth Nyangaga	- Director
	: Edwin Kinyua	- Director
	: Robert Kamau Joshua	- Director
	: Daniel Kimagut	- Director
<b>SUPERVISORY COMMITTEE</b>	: George Metho	- Chairman
	: Maureen Kitoto	- Secretary
	: Simon Githithi	- Member
<b>MANAGEMENT</b>	: Mwasambu Mbango Charles	- Chief Executive Officer
	: Kenneth Hinga	- Finance Manager
	: Thomas Njoka	- Fosa Manager
<b>REGISTERED OFFICE</b>	: Kenya Pipeline Company Limited	
	: Nairobi Terminal, Nanyuki Road, Off Sekandi Road	
	: P.O. Box 314, 00507	
	: NAIROBI	
<b>INDEPENDENT AUDITOR</b>	: Mazars	
	: Certified Public Accountants	
	: P.O. Box 61120-00200	
	: NAIROBI	
<b>PRINCIPAL BANKERS</b>	: Co-operative Bank of Kenya Limited	
	: Industrial Area Branch	
	: Equity Bank Limited	
	: Kenpipe Plaza	
	: Commercial Bank of Africa	
	: Industrial Area Branch	
<b>LEGAL ADVISORS</b>	: Millimo, Muthomi and Company Advocates	
	: 4th Floor, Agip House	
	: Haile Selassie Avenue	
	: NAIROBI	
	: Wekesa and Simiyu Advocates	
	: 8th Floor, Lenana Towers	
	: Lenana Road	
	: NAIROBI	

## **Chairman's Statement**

Honorable members, invited guests, our esteemed guest of honour, ladies, and gentlemen, on behalf of

Kenpipe DT Sacco Board of Directors, I welcome you all to Kenpipe DT Sacco's 42<sup>nd</sup> Annual Delegates Meeting.

## **Compliance and Governance**

Kenpipe DT SACCO Society Ltd was established in 1981 by employees of Kenya Pipeline Company Limited as a Welfare Organization with less than 140 members. The Welfare Organization was later registered into a Savings and Credit Society under the Co-operatives Act in the same year. As result of the enactment of Sacco Society's Act 2008, which gave birth to regulation of Deposit Taking Saccos, Kenpipe DT Sacco Ltd was licensed as a Deposit Taking Sacco in 2011 by SASRA. The Sacco is governed by a board of directors comprising of nine members, supervised by Supervisory Committee, and managed by 17 members of staff lead by the CEO. During the year in review, the regulator found the Sacco compliant in all prudential standards except one i.e., Liquidity Ratio which was below the requirement of 15%. The board took note of this and instituted a few policy changes which corrected the situation by the end of the year. We closed the year with our liquidity ratio at 17%. The Sacco was also privileged to have the regulator conduct a routine onsite inspection in the month of November 2021, whose recommendations have since been implemented but comprehensively the inspection gave the Sacco a clean bill of health.

## **Performance**

### **Membership**

Kenpipe DT Sacco membership is open to members of Kenya Pipeline Company Ltd and members of the public who qualify for membership. Our members comprise of those members who are active and some dormant. Some members become dormant for one reason or another MUCH OF IT BEING EFFECTS OF THE PANDEMIC. The number of active members increased from 2181 in the year 2020 to 2474 in the year 2021.

### **Assets**

During the year in review, the Covid-19 pandemic prevalence continued. This means travel restrictions and other containment measures continued resulting in reduced economic activities which affected our business. We at Kenpipe DT Sacco however managed a growth in our total assets by 9% from Kes 3,387,426,363 in 2020 to Kes 3,681,061,409 in the year 2021. Kenpipe Sacco Assets consists of 84% loans and advances with the remainder being cash at bank, other financial assets and property and equipment. The trend is a little bit worrying as loans seems to be too dominant. We need to look at other forms of investment to avoid over relying on loaning.

### **Deposits**

Our Sacco Members deposits increased marginally by 7% from Kes 2,407,868,964 in the year 2020 to Kes 2,572,583,607 in the year 2021. The Sacco has experienced a slower saving culture as opposed to the rate at which members borrow. To correct this unbalanced equation, the board has introduced “**deposit banding**” whereby the more you borrow, the more you contribute towards deposits during the period you are repaying the loan. We have also introduced the minimum monthly deposit a member must contribute. We would like to encourage members to save more even if you are not borrowing as our return in the form of interest has been very impressive for several years.

### **Loan Book**

Kenpipe Sacco loan book has been growing over the last few years. Loans being our core business, we encourage our members to borrow but I would like our members to use the credit for productive purposes. The loan book grew by 6% from Kes 2,947,554,730 in the year 2020 to Kes 3,112,069,629 in the year ending 2021. In comparison, our members have borrowed Kes 539,486,022 more than what they have saved. This trend is worrying as the Sacco is left with no money to invest elsewhere.

## Chairman's Statement (Continued)

### Share Capital

Kenpipe members share capital increased marginally by 11% from Kes 111,543,083 in the year 2020 to Kes 123,348,898 in the year 2021. The Sacco has consistently paid dividend of 16% on share capital, however the members seem not to be interested in earning more. We encourage you to invest more in share capital as it would never disappoint.

### Revenue

Kenpipe DT Sacco revenue (income) for the year increased marginally by 6% from Kes 485,999,253 in the year 2020 to Kes 512,769,223 in the year 2021. In comparison to the year 2020, our expenditure increased by 11% as a result of additional expenses which were not carried out the previous year. The activities included Annual Delegates Meeting, Special Delegates Meeting, Trainings among others. In addition to the activities, the loan loss provisioning increased as a result of increase in loan defaults.

### Strategic Plan

#### Kenpipe Strategic Plan 2017 - 2021

Dear members allow me to give a review of the Kenpipe DT Sacco Ltd Strategic Plan 2017 – 2021. I would like to congratulate the board, management, and members for successful execution of the Strategic Plan. From my personal rating the Sacco scored an A. I may be subjective, but you can as well give your score. Allow me to give just the highlights of the achievements.

Membership target is the only perspective which was **not achieved** and the reason for non-achievement is partly due to the difficulty in penetrating corporate membership as most corporations have their Institutional based Saccos. However, I must report that we have retained over 90% of our retiring members over the five-year period. All the other targets were achieved, member deposits, total assets, total loans, income, expenses, and institutional capital. During the period the board also managed to meet all the regulator's set prudential standards. The table below shows the figures against the targets.

	2017	2018	2019	2020	2021
Members	3,091	3,558	3,664	3,831	4,212
Target	3,250	3,850	4,450	5,050	5,650
Deposits (Millions)	1,737	1,930	2,215	2,407	2,572
Target (Millions)	1,690	1,872	2,074	2,298	2,547
Assets (Millions)	2,350	2,608	3,042	3,387	3,683
Target (Millions)	2,220	2,465	2,736	3,037	3,372
Loans (Millions)	1,812	2,140	2,511	2,947	3,112
Target (Millions)	1,718	1,899	2,098	2,319	2,562
Income (Millions)	294	351	408	486	513
Target (Millions)	319	363	414	471	537
Expenses (Millions)	240	281	302	339	377
Target (Millions)	281	308	342	379	421
Inst. Capital (Millions)	345	378	476	580	698
Target (Millions)	365	411	468	539	623

#### Kenpipe Strategic Plan 2022 – 2026

The Board and Management embarked on the process of developing Kenpipe Sacco Strategic Plan 2022-2026 with the help of a consultant after getting input from our delegates. The consultant was able to identify Kenpipe Sacco strengths and weaknesses.

**Chairman's Statement (Continued)**

Our strengths among others and which we as members of Kenpipe Sacco Ltd must strive to sustain are; Timely loan processing; Stable financial base and check-off; Robust ICT Systems - all operations are system based; Robust Governance; Loyal membership; Competent staff; Prudent management - expenditure levels are low; Prompt and stable check-off from employers.

However, at the same time the consultant brought out the Sacco weaknesses which we must work together to eradicate. The weaknesses among others are Separate FOSA/BOSA office locations; Unstable liquidity - the liquidity ratio sometimes goes below 15%; Debt collection not yet fully operationalized; The provisioning for doubtful debts is growing at a rapid rate; Membership growth is too slow; The society is heavily dependent on interest income.

For the next five years the Sacco board and management have envisioned the growth as shown below;-

<b>Targets</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Members	4,212	4,369	4,526	4,683	4,840	5,000
Total Assets (Millions)	3,683	3,946	4,210	4,473	4,736	5,000
Total Loans (Millions)	3,112	3,389	3,667	3,944	4,222	4,500
Total Deposits (Millions)	2,572	2,858	3,143	3,429	3,714	4,000
Total Income (Millions)	512,	612	712	812	912	1,012

**Payment of Interest Rebate and Dividends**

Kenpipe DT Sacco Ltd expenditure increased during the year 2021 however arising from our good performance the board recommends payment of 11% interest on members' deposits, 6.5% interest on Kesasa Savings and 16% dividend on share capital. In monetary terms the Sacco will pay interest on members' deposits amounting to Kes 254,630,093 and dividend on share capital of Kes 19,735,823.

**By-Laws Review**

The Kenpipe DT Sacco by-laws was reviewed lastly in the year 2013. During the year 2021 we embarked on the process of reviewing our by-laws and the process is complete and the reviewed by -laws 2021 are pending registration at the Commissioner for Co-operatives office. Once registered we will embark on dissemination of the changes in it to the members.

**Outlook**

The Board and Management would like to leverage on ICTs to deliver our services. We have already automated Weekend Njema, Salary Advance, Interest (Dividend) Advance. These products are now accessible through the members mobile phones. We are going to automate the processing and disbursement of all types of emergency loans this year. This will go along way in meeting the purpose of emergency as the members will be able to apply for emergency loan from their phones and the same credited to their accounts without the need to fill in any forms. Of interest is that this will reduce the traffic to FOSA Offices and hence reduce congestion. We have revamped Kenpipe DT Sacco Members Portal from where a member can get all the information about their accounts.

**Conclusion**

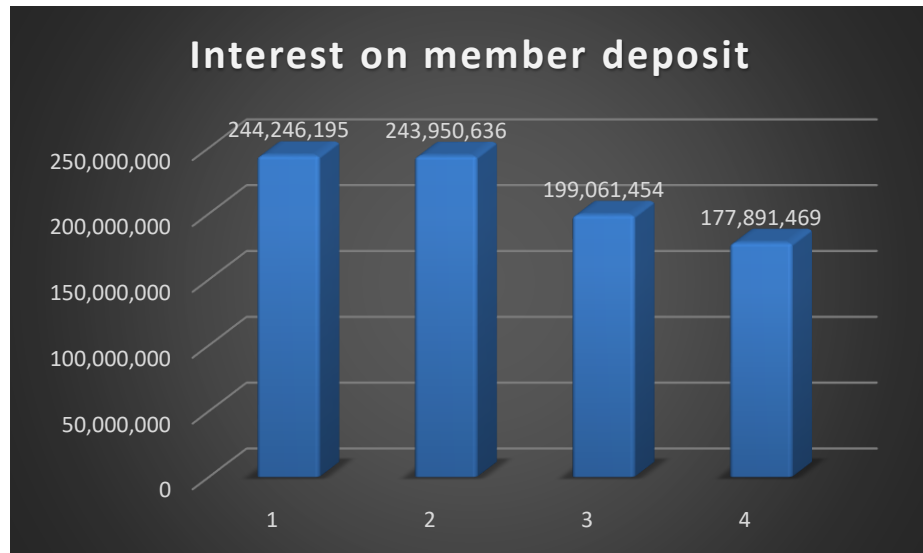
I would like to express my sincere gratitude to our esteemed members for their continued support and patronage of the Sacco. There's no doubt that members are at the core of the success of our Sacco. I wish to thank my fellow directors for their dedication and insights, and our staff for their hard work and commitment to the SACCO, while recognizing with appreciation the facilitation by KPC Management and the various institutions where we draw our membership. Finally, I would like to appreciate the State Department for Co-operatives for their support.

---

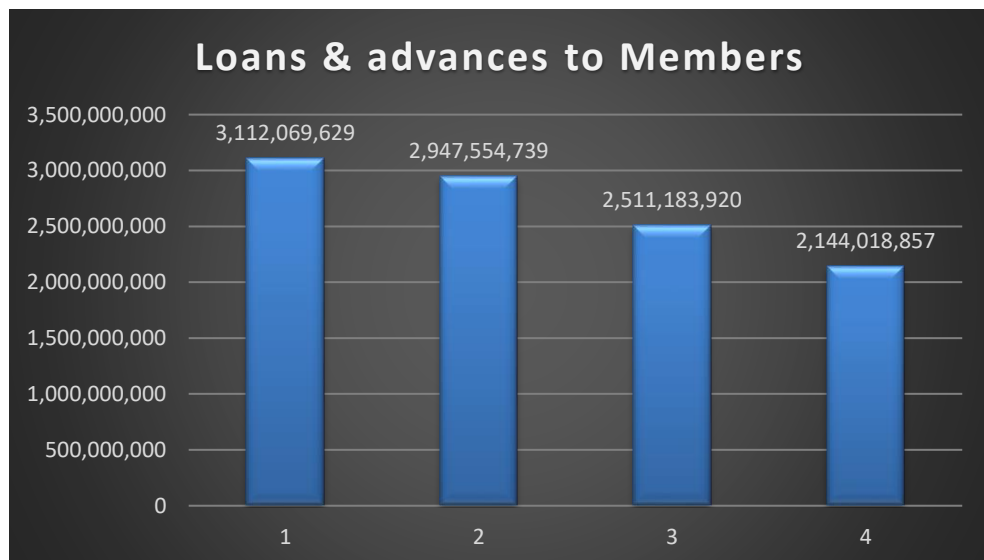
Vitalis Opapo  
**Chairman**

**COMPARATIVE PERFORMANCE HIGHLIGHTS**

	YEARS			
	2021 Shs	2020 Shs	2019 Shs	2018 Shs
<b>Interest on member deposit</b>	244,246,195	243,950,636	199,061,454	177,891,469



	YEARS			
	2021 Shs	2020 Shs	2019 Shs	2018 Shs
<b>Loans &amp; advances to Members</b>	3,112,069,629	2,947,554,739	2,511,183,920	2,144,018,857



## **REPORT OF THE DIRECTORS**

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2021 which disclose the state of affairs of the Society.

### **Principal activity**

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

<b>Results</b>	<b>2021 Shs</b>	<b>2020 Shs</b>
Profit before tax	135,453,890	146,594,098
Income tax expense	<u>(4,065,331)</u>	<u>(2,510,376)</u>
Profit for the year	<u>131,388,559</u>	<u>144,083,722</u>
Interest on members' deposits	<u>(254,630,093)</u>	<u>(254,760,679)</u>

### **Share Capital**

The issued and paid up share capital of the society was increased during the year from Shs. 111,543,083 to Shs. 123,348,898.

### **Board of directors**

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

### **Independent auditor**

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

..... Date..... 2022  
Mercy Wesutila  
**Hon Secretary**



## **CORPORATE GOVERNANCE STATEMENT**

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

The board of directors are responsible for the corporate governance practices of the Society. This statement sets out the main practices in operation during the year under review, unless otherwise indicated. The Society is committed to business integrity and professionalism in all its activities.

### **Board of directors**

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

Board meetings are held in line with the annual calendar except when critical business necessitates ad hoc meetings. The following meetings were held during the year ended 31 December 2021:

	<b>No. of meetings</b>	<b>Membership</b>	<b>Average attendance %</b>
Full board	12	9	95.0
Finance, Administration and HR Committee	12	3	90.3
Credit Committee	12	3	94.5
Audit and Risk Management Committee	12	3	90.0

### **Board sub-committees**

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

- |   |                           |
|---|---------------------------|
| 1. Finance, Administration and HR Committee | Chaired by: Daniel Kioko  |
| 2. Credit Committee                         | Chaired by: Andrew Gisore |
| 3. Audit and Risk Management Committee      | Chaired by: Robert Kamau  |

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

**FINANCIAL AND STATISTICAL INFORMATION**

		<b>As at 31 December</b>	
		<b>2021</b>	<b>2020</b>
		<b>Numbers</b>	<b>Numbers</b>
<b>Membership</b>	Active	2,474	2,181
	Dormant	1,738	1,650
		<u>4,212</u>	<u>3,831</u>
<b>Number of employees</b>			
	Male	9	9
	Female	8	8
		<u>17</u>	<u>17</u>
		<b>2021</b>	<b>2020</b>
<b>Financial</b>		<b>Shs</b>	<b>Shs</b>
	Total assets	3,681,061,409	3,387,426,362
	Members' deposits	2,572,583,607	2,407,868,964
	Loans and advance to members	3,112,069,629	2,947,554,739
	Provision for loan losses	27,828,193	11,529,739
	Investments	85,157,481	72,935,646
	Total revenue	512,769,223	485,999,253
	Total interest income	488,744,141	458,342,430
	Total expenses	377,315,333	339,405,155
	Share capital	123,348,898	111,543,083
	Statutory reserve	154,514,353	127,933,243
	Retained Earning	418,227,709	354,764,120
	Core capital	819,245,410	692,380,936
	Institutional capital	695,896,512	580,837,853
	Credit Risk reserve	53,771,498	32,163,461
<b>Key ratios:</b>			
		<b>2021</b>	<b>2020</b>
		<b>%</b>	<b>%</b>
<b>Capital adequacy ratios</b>			
		<b>Minimum Ratios</b>	
	Core capital/Total assets	10%	22.3%
	Core capital/Total deposits	8%	31.8%
	Institutional capital/Total assets	8%	18.9%
			17.1%
<b>Liquidity ratio</b>			
	Liquid assets/Total deposits and short-term liabilities	15%	17.0%
			13.6%
<b>Operating efficiency/loan quality ratios</b>			
	Total expenses/Total revenue	73.6%	69.8%
	Interest on members deposits/Total revenue	49.7%	52.4%
	Interest rate on members' savings	11.0%	12.0%
	Dividend rate on members share capital	16.0%	16.0%
	Total delinquent loans/Gross loan portfolio	0.9%	0.4%

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

The Board of Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Society as at 31 December 2021 and of its profit/loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Sacco Societies Act No. 14 of 2008.

In preparing these financial statements the directors have assessed the society's ability to continue as a going concern as detailed in Note 1 to the financial statements. Nothing has come to the attention of the directors to indicate that the society will not remain a going concern for at least the next twelve months from the date of this statement.

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

unaware of and each of the director has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on \_\_\_\_\_ 2022 and signed on its behalf by:

---

Vitalis Opapo  
**Chairman**

---

Daniel Nzuki  
**Treasurer**

---

Mercy Wesutilla  
**Director**

**Opinion**

We have audited the accompanying financial statements of Kenpipe Sacco Ltd, set out on pages 14 to 51, which comprise the statements of income and expenditure, statement of financial position, statement of changes in fund and cash flows for the year then ended 31 December 2021, and notes, including summary of significant accounting policies.

In our opinion the Society's financial statements give a true and fair view of the financial position of the Sacco as at December 31, 2021 and of its financial performance for the year 2021. Have been properly prepared in accordance with International Financial Reporting Standards and the Sacco Societies Act.

**Key audit matters**

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a comprehensive list of all risks identified by our audit, but those risks which were in our professional judgment key to the audit. The below areas of focus were discussed with those charged with governance of the society.

**1. IFRS 9**

The Sacco has adopted IFRS 9 which introduced an "expected credit loss" (ECL) framework for the recognition of impairment. It sets out how an entity should classify and measure financial assets and financial liabilities. Under IFRS 9's ECL impairment framework, an entity is required to recognise ECLs at all times, taking into account past events, current conditions and forecast information, and to update the amount of ECLs recognised at each reporting date to reflect changes in an asset's credit risk.

**How our audit addressed the key audit matter**

We sought to understand the management decision to make provision for impairments and judgment criteria. The Sacco management adopted IFRS 9 model to compute the provision for expected loans impairment.

- We reviewed the accuracy of the model and the assumptions used by the management. For a sample of loans we assessed whether prudent judgments were applied given the borrowers financial ability to repay i.e. the Society's assumptions on the expected future cash flows.
- Evaluated the consistent application of controls and operating effectiveness of the verification, approval, recording and management of loans.
- Testing the accuracy and completeness of the loans balances used to compute the amount to be judged impaired and recalculated arithmetical accuracy.
- We assessed whether the disclosure of the impairment had been made appropriately in the financial statements.

We observed that the management of the Society had been prudent in the granting of loans and also on recognizing the credit risk to the assets (loans).

**2. Information Technology System and Controls**

The Society relies heavily on the use of information technology (IT) systems to record transactions of member's deposits, loans to members, expenses, assets and liabilities of the Sacco; calculate automatically interest income on loans and generate financial reports.

We identified the IT systems as key area of particular interest in our audit approach, for us to rely on controls around the system and the reports generated therefrom.

Entities relying heavily on automated IT systems are highly exposed to attack in various forms from both insiders and outsiders.

**Key audit matters (continue)****We reviewed / tested IT controls which comprised**

- Systems access set up with a view to understand the authorizations, restrictions and segregations of various rights to access/perform distinct functions by reviewing the rights/permissions and responsibilities of those given the rights to access the distinct function(s).
- Data capture completeness and accuracy by testing posted transactions to the supporting records.
- We evaluated the security of the IT systems by testing the security installed around the IT such malware detectors, anti-viruses and firewalls.
- We held discussions with the management and they communicated to us they had commissioned a consultancy with an IT system audit expert to identify the vulnerabilities the Society is exposed to, and the measures the management can take to limit the exposure to such risks.
- While the measures the Sacco can take can limit the risk of possible attacks it should be noted that the risks are continuously evolving and the management must always evolve with the risks and continuously keep abreast of the emerging risks.

**3.Impairment of loans and advances to Customers**

The determination of impairment provisions remains a highly subjective and judgmental area. Furthermore the Society is subject to significant regulatory scrutiny with respect to provisioning levels. The Society's loan to its members are monitored individually but grouped into portfolios based on performance, on which basis they are impaired. Individual member loans are monitored through historical delinquency statistics. The assessment establishes the need for any additional impairment allowance. The Society provides for its loans and advances in accordance with the regulations provided by the Sacco Societies Regulatory Authority (SASRA).

**How our audit addressed the key audit matter**

Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Society in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for assessed loans and advances.

We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included:-

- Those over the identification of which loans and advances were impaired.
- The data transfer from source systems to impairment models and model output to the general ledger,
- The calculation of the impairment provisions
- In addition, we tested IT controls for impairment systems.

We determined that we could rely on these controls for the purposes of our audit.

We also performed individual credit file reviews for control and substantive purposes to test the accuracy of the provisioning and also recoverability of the loans. We assessed on a sample basis whether the individual performing loans had any impairment indicators that had not been identified. For a sample of individually impaired loans, our procedures involved assessing the key judgments relating to recovery and collateral valuations.

**Other information**

The Board of Directors' is responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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

**Board of directors' responsibility for the financial statements**

The Board of Directors' is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act No. 14 of 2008 and Co-operative Societies Act No. 12 of 1997, and for such internal control as the Board 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 Board of Directors' is responsible for assessing the Sacco'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 Sacco or to cease operations, or have 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- i) 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.
- ii) 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 sacco's internal control.
- iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- iv) Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the sacco's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the sacco to cease to continue as a going concern.

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

- v) 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.

## **Report on other legal requirements**

As required by the Sacco Societies Act No. 14 of 2008, we report to you, based on our audit;

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Society, so far as appears from our examination of those books; and
- iii) the Society's Statement of Financial Position and Statement of Comprehensive Income account are in agreement with the books of account.

As required by the Co-operative Societies Act No. 12 of 1997, we report to you based on our audit that, in our opinion, the Society's business has been conducted;

- i) in accordance with the provisions of this Act and, the books of accounts kept by the Society are in agreement therewith and give a true and fair view of the state of the affairs of the Society; and
- ii) in accordance with the Society's objectives and by-laws.

*The engagement partner responsible for the audit resulting in this independent auditor's report was FCPA Charles Gathuto-P/No. 1231.*

\_\_\_\_\_ **2022**

\_\_\_\_\_  
**For and on behalf of:-  
Mazars  
Certified Public Accountants (K)  
Nairobi**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

<b>Revenue</b>	<b>Notes</b>	<b>2021 Shs</b>	<b>2020 Shs</b>
Interest income:			
- Interest on loans and advances	2 (a)	476,858,810	438,218,086
- Other interest income	2 (b)	<u>11,885,331</u>	<u>20,124,344</u>
<b>Total interest income</b>		<b>488,744,141</b>	<b>458,342,430</b>
Interest expense	2 (c)	<u>(254,630,093)</u>	<u>(254,760,679)</u>
<b>Net interest income</b>		<b>234,114,048</b>	<b>203,581,751</b>
Other operating income	2 (e)	<u>24,025,082</u>	<u>27,656,823</u>
<b>Total operating income</b>		<b>258,139,130</b>	<b>231,238,574</b>
Impairment charge on loans and advances	8	(20,084,489)	(1,765,280)
Governance expenses	3 (c)	(24,360,369)	(16,981,623)
Staff costs	4	(45,478,836)	(39,439,595)
Other administrative expenses	23	(16,584,894)	(13,210,176)
Other operating expenses	24	<u>(16,176,652)</u>	<u>(13,247,802)</u>
<b>Profit before tax</b>	<b>3</b>	<b>135,453,890</b>	<b>146,594,098</b>
Income tax expense	5	<u>(4,065,331)</u>	<u>(2,510,376)</u>
<b>Net profit for the year</b>		<b>131,388,559</b>	<b>144,083,722</b>
Other comprehensive income:			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
- Fair value gain / (loss) on available for sale financial assets	9	1,596,835	(23,774,683)
- Deferred (charge) / tax credit thereon	16	<u>(79,842)</u>	<u>1,188,734</u>
<b>Net surplus for the year</b>		<b><u>132,905,552</u></b>	<b><u>121,497,773</u></b>
20% transfer to statutory reserve		<u>26,581,110</u>	<u>24,299,555</u>
<b>Surplus for the year available for distribution</b>		<b><u>106,324,442</u></b>	<b><u>97,198,218</u></b>

The notes on pages 18 to 51 form an integral part of these financial statements.

Report of the independent auditor - pages 10 to 13.



**STATEMENT OF FINANCIAL POSITION**

	Notes	As at 31 December	
		2021 Shs	2020 Shs
<b>ASSETS</b>			
Cash and bank balances	6	437,047,316	327,059,421
Receivables and prepayments	7	27,277,629	19,562,721
Loans and advances to members	8	3,112,069,629	2,947,554,739
Other financial assets	9	85,157,481	72,935,646
Tax recoverable	15	6,889,863	7,971,407
Property and equipment	10	8,870,223	8,176,575
Intangible assets	11	3,749,268	4,165,853
<b>Total assets</b>		<b><u>3,681,061,409</u></b>	<b><u>3,387,426,362</u></b>
<b>LIABILITIES</b>			
Payables	12	32,584,103	29,882,618
Interest due to members	13	254,035,282	254,760,679
Member deposits	14	2,572,583,607	2,407,868,964
Deferred tax	16	2,613,007	2,533,165
		<u>2,861,815,999</u>	<u>2,695,045,426</u>
<b>FINANCED BY</b>			
Share capital	17	123,348,898	111,543,083
Statutory reserve	18 (i)	154,514,353	127,933,243
Credit risk reserve	18 (ii)	53,771,498	32,163,461
Fair value reserve	18 (iii)	49,647,129	48,130,136
Retained earnings	18 (iv)	418,227,709	354,764,120
Proposed dividend	18 (v)	19,735,823	17,846,893
		<u>819,245,410</u>	<u>692,380,936</u>
<b>Total liabilities and capital</b>		<b><u>3,681,061,409</u></b>	<b><u>3,387,426,362</u></b>

The financial statements on pages 14 to 51 were approved and authorised for issue by the board of directors on \_\_\_\_\_ 2022 and were signed on its behalf by:

\_\_\_\_\_  
Vitalis Opapo  
**Chairman**

\_\_\_\_\_  
Daniel Nzuki  
**Treasurer**

\_\_\_\_\_  
Mercy Wesutila  
**Director**

The notes on pages 18 to 51 form an integral part of these financial statements.

Report of the independent auditor - pages 10 to 13.

Kenpipe Savings and Credit Co-operative Society Limited - CS/NO. 3468  
Annual report and financial statements  
For the year ended 31 December 2021

**STATEMENT OF CHANGES IN EQUITY**

		Share capital	Retained Earning	Statutory reserve	Credit Risk reserve	Fair value reserve	Proposed dividend	Total
<b>Year ended 31 December 2020</b>								
At start of the year - as previously stated		108,952,723	257,185,395	103,633,688	27,804,912	70,716,085	17,432,435	585,725,238
- IFRS 9 provision adjusment	8	-	-	-	-	-	-	-
At start of the year - as restated		108,952,723	257,185,395	103,633,688	27,804,912	70,716,085	17,432,435	585,725,238
Total comprehensive income		-	144,083,722	-	-	(22,585,949)	-	121,497,773
Transfer to statutory reserve		-	(24,299,555)	24,299,555	-	-	-	-
Transfer to loan loss reserve		-	(4,358,549)	-	4,358,549	-	-	-
<b>Transactions with owners:</b>								
Issue of investment shares	17	2,590,360	-	-	-	-	-	2,590,360
Dividends:								
- Paid 2020	2 (c)(ii)	-	-	-	-	-	(17,432,435)	(17,432,435)
- Proposed 2020	18 (v)	-	(17,846,893)	-	-	-	17,846,893	-
<b>At end of year</b>		<b>111,543,083</b>	<b>354,764,120</b>	<b>127,933,243</b>	<b>32,163,461</b>	<b>48,130,136</b>	<b>17,846,893</b>	<b>692,380,936</b>
<b>Year ended 31 December 2021</b>								
At start of the year - as previously stated		111,543,083	354,764,120	127,933,243	32,163,461	48,130,136	17,846,893	692,380,936
- IFRS 9 provision adjusment		-	-	-	-	-	-	-
At start of the year		111,543,083	354,764,120	127,933,243	32,163,461	48,130,136	17,846,893	692,380,936
Total comprehensive income		-	131,388,559	-	-	1,516,993	-	132,905,552
Transfer to statutory reserve		-	(26,581,110)	26,581,110	-	-	-	-
Transfer to loan loss reserve		-	(21,608,037)	-	21,608,037	-	-	-
<b>Transactions with owners:</b>								
Issue of investment shares	17	11,805,815	-	-	-	-	-	11,805,815
Dividends:								
- Paid 2021	2 (c)(ii)	-	-	-	-	-	(17,846,893)	(17,846,893)
- Proposed 2021	18 (v)	-	(19,735,823)	-	-	-	19,735,823	-
<b>At end of year</b>		<b>123,348,898</b>	<b>418,227,709</b>	<b>154,514,353</b>	<b>53,771,498</b>	<b>49,647,129</b>	<b>19,735,823</b>	<b>819,245,410</b>

The notes on pages 18 to 51 form an integral part of these financial statements.

Report of the independent auditor - pages 10 to 13.

**STATEMENT OF CASH FLOWS**

	Notes	2021 Shs	2020 Shs
<b>Cash from operating activities</b>			
Interest income on member loans	2(a)	476,858,810	438,218,086
Less: Loan interest received and accounted for from previous year	7.	<u>(2,763,569)</u>	<u>(3,334,169)</u>
		474,095,241	434,883,917
Other interest income	2(b)	11,885,331	20,124,344
Other operating income	2(d)	10,239,975	10,834,345
Payment to employees and suppliers		(90,641,870)	(70,140,067)
Interest paid to members	13(a)(b)	<u>(254,760,679)</u>	<u>(208,311,140)</u>
		150,817,998	187,391,399
<b>Decreased in operating assets</b>			
Net loans and advances to members	8	(192,343,083)	(447,900,558)
<b>Increase in operating liabilities</b>			
Deposits from members	14	164,714,643	192,716,621
Income tax paid	15	<u>(2,983,787)</u>	<u>-</u>
<b>Net cash generated from / (used in) operating activities</b>		<u>120,205,771</u>	<u>(67,792,538)</u>
<b>Investing activities</b>			
Cash paid for purchase of investment	9	(10,625,000)	-
Cash paid for purchase of property and equipment	10	(2,645,592)	(3,873,567)
Cash paid for purchase of intangible assets	11	-	(129,618)
Dividends received	2(d)	<u>9,093,794</u>	<u>9,180,167</u>
<b>Net cash flow (used in) / generated from investing activities</b>		<u>(4,176,798)</u>	<u>5,176,982</u>
<b>Financing activities</b>			
Proceeds from issue of shares	17	11,805,815	2,590,360
Dividend paid	2(c)(ii)	<u>(17,846,893)</u>	<u>(17,432,435)</u>
<b>Net cash flow used in financing activities</b>		<u>(6,041,078)</u>	<u>(14,842,075)</u>
Increase / (Decrease) in cash and cash equivalents		109,987,895	(77,457,631)
Cash and cash equivalents at start of year		<u>327,059,421</u>	<u>404,517,052</u>
Cash and cash equivalents at end of year	6	<u><u>437,047,316</u></u>	<u><u>327,059,421</u></u>

The notes on pages 18 to 51 form an integral part of these financial statements.

Report of the independent auditor - pages 10 to 13.

## NOTES

### 1. Significant accounting policies

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

#### a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated 'otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the society takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

#### Going concern

The financial performance of the society is set out in the report of the directors and in the statement of profit or loss and the other comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 21 and capital management disclosures are set out on Note 22.

Based on the financial performance and position of the society and its risk management policies and the disclosures set out in Note 21 with regard to minimum capital requirements, the directors are of the opinion that the society is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

#### New and amended standards adopted by the society

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

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

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

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.

**NOTES (CONTINUED)**

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

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

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

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

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

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

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

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

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 at 1 January 2021 are compared as follows:

	<b>IFRS 9 Measurement category</b>	<b>Carrying amount 31 December 2020 Shs</b>	<b>IFRS 9 Measurement category</b>	<b>Carrying amount 1 January 2021 Shs</b>
<b>Financial assets</b>				
Loans and advances	Loans and advances	<u><b>2,501,419,461</b></u>	Amortised cost	<u><b>2,936,025,000</b></u>

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

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

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

**NOTES (CONTINUED)**

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

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

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

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

**(iii) Significant and material impacts**

- Total provision for impairment of loans and advances increased by Shs 16,298,454 from Shs 11,529,739 as at 31 December 2020 to Shs 27,828,193 as at 31 December 2021.

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

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

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

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

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

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

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

**NOTES (CONTINUED)**

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

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

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

**b) Critical accounting estimates and judgements**

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

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

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

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

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

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

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

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

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

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

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

- 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.

**NOTES (CONTINUED)**

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

**c) Key sources of estimation uncertainty**

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

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

**- Fair value of financial instruments**

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

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

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

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

**d) Revenue recognition**

**Interest income**

Interest income is recognised under the effective interest method. The effective interest is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the society estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**Fee and commission income**

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

**Other income**

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



**NOTES (CONTINUED)**

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

**e) Property and equipment**

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

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

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

	<u>Rate %</u>
Furniture and fittings	10
Computer and accessories	33.3
Motor vehicle	25
Office equipments	10
Leasehold improvements	10

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

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

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

**f) Intangible assets**

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

**Computer software**

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

**g) Financial instruments**

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

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**- Financial assets**

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in profit or loss.

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

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

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

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

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

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

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

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

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

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

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

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

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

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

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

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

**Impairment**

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

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

No impairment loss is recognised on investments measured at FVTPL.

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

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

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**Impairment (continued)**

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

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

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

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

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

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

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

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

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

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**Modification and derecognition of financial assets**

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

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

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

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

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

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

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)**

**g) Financial instruments (continued)**

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

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

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

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

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

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

**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.

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**Write-off (continued)**

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

**Management classifies financial assets as follows:**

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

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

**Financial liabilities**

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

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

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

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

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

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

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

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**Offsetting financial instruments**

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

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

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

**i) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**j) Reserves**

**- Statutory reserve**

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

**- Loan loss reserve**

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

**- Appropriation account**

This comprises retained earnings and is distributable.

**- Fair value reserve**

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

Gains and losses transferred from equity into statement of comprehensive income during the period are included in other gains and losses. The amounts in this reserve is not distributable.



**NOTES (CONTINUED)**

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

**k) Employee entitlements**

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

**l) Dividends**

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

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

**m) Investment shares**

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

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

**n) Taxation**

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

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

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

**o) Retirement benefit obligations**

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

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

**p) Comparatives**

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

**NOTES (CONTINUED)**

**2. Revenue**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>a) Interest income</b>		
Interest on loans and advances to members	<u>476,858,810</u>	<u>438,218,086</u>
<b>b) Other interest income</b>		
Interest on fixed deposits	<u>11,885,331</u>	<u>20,124,344</u>
Total interest income	<u><u>488,744,141</u></u>	<u><u>458,342,430</u></u>
<b>c) Interest expenses</b>		
Interest on member deposits - BOSA	244,246,195	243,950,636
Interest on FOSA deposits	<u>10,383,898</u>	<u>10,810,043</u>
<b>Total interest expense</b>	<u><u>254,630,093</u></u>	<u><u>254,760,679</u></u>
<b>d) Dividend paid</b>		
Dividend paid during the year	<u>17,846,893</u>	<u>17,432,435</u>
<b>e) Other operating income</b>		
<b>Items that involve cash movement</b>		
Entrance fees	599,600	253,200
Frequency withdrawal fees	847,500	714,450
Cash withdrawal fees	196,404	249,522
SMS alert fees	719,154	767,130
Penalties and fines	328,229	380,405
Commission earned on members products	<u>7,549,088</u>	<u>8,469,638</u>
	<u>10,239,975</u>	<u>10,834,345</u>
<b>Items that do not involve cash movement</b>		
Loan appraisal fees	4,108,500	4,416,000
Other fees	12,000	15,400
Commission earned on members products	231,500	1,016,513
Miscellaneous income	<u>339,313</u>	<u>2,194,398</u>
	<u>4,691,313</u>	<u>7,642,311</u>
Dividend income	<u>9,093,794</u>	<u>9,180,167</u>
<b>Total fee and commission income</b>	<u><u>24,025,082</u></u>	<u><u>27,656,823</u></u>

**3. Profit before tax**

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

<b>a) Administration and other operating expenses</b>		
Auditors' remuneration	808,752	773,446
Staff costs (Note 4)	45,478,836	39,439,595
Depreciation on property and equipment (Note 10)	1,951,946	1,276,289
Amortisation of intangible assets (Note 11)	416,585	450,871
Marketing and advertisement	<u>3,174,447</u>	<u>668,667</u>
<b>b) Impairment provision</b>	<u>20,084,489</u>	<u>1,765,280</u>

**NOTES (CONTINUED)**

3. Profit before tax (continued)	2021 Shs	2020 Shs
c) Governance expenses		
Annual delegates meeting	5,933,150	3,302,821
Education board members	1,130,526	606,338
Board sitting allowances	2,337,500	2,506,507
Member education	5,249,562	1,385,633
Board travelling/subsistence/retreat	1,910,650	1,210,023
Honorarium provision	7,748,981	7,970,301
Ushirika day celebrations	50,000	-
	<u>24,360,369</u>	<u>16,981,623</u>
4. Staff costs		
Salaries and wages	34,879,289	31,725,634
Other staff cost	8,026,300	5,424,735
Pension costs:		
- defined contribution scheme	2,530,047	2,246,026
- National Social Security Fund	43,200	43,200
	<u>45,478,836</u>	<u>39,439,595</u>
5. Tax		
Current tax	<u>4,065,331</u>	<u>2,510,376</u>
The tax on the Society's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	<u>135,453,890</u>	<u>146,594,098</u>
Tax calculated at a tax rate of 30% (2020: 25%)	40,636,167	36,648,525
Tax effects of:		
- expenses not deductible for tax purposes	108,651,553	81,548,278
- income not subject to tax	<u>(147,584,197)</u>	<u>(115,686,426)</u>
<b>Tax charge</b>	<u>1,703,523</u>	<u>2,510,377</u>
6. Cash and bank balances		
	<b>Note</b>	
Cash at bank and in hand	6 (i)	177,927,417
Short term bank deposits	6 (ii)	266,204,035
		<u>444,131,452</u>
Impairment allowance		<u>(7,084,136)</u>
		<u>437,047,316</u>
		<u>155,363,025</u>
		<u>175,000,000</u>
		<u>330,363,025</u>
		<u>(3,303,604)</u>
		<u>327,059,421</u>

The weighted average effective interest rate on short-term bank deposits at year-end was 8% (2020: 8%).

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

For the purpose of the statement cash flows, the year end cash and cash equivalents comprise the above.

The carrying amounts of the Society's cash and cash equivalents are denominated in Kenya Shillings (Shs).

**NOTES (CONTINUED)**

<b>6. Cash and bank balances</b>	<b>2021</b>	<b>2020</b>
	<b>Ksh</b>	<b>Ksh</b>
<b>(i) <u>Cash at bank and in hand</u></b>		
Cash in hand	1,829,934	2,077,699
	<b><u>1,829,934</u></b>	<b><u>2,077,699</u></b>
<b>Cash at Bank</b>		
<b><u>Current Accounts</u></b>		
Co-operative bank	58,720,812	80,033,623
Equity bank (Bosa)	2,905,748	2,451,742
SBM bank	274,286	624,343
NCBA bank	50,043,758	7,814,844
Equity bank (Fosa)	30,009,446	12,077,493
Co-operative bank ATM settlement account	5,770,164	12,673,526
	<b><u>147,724,214</u></b>	<b><u>115,675,570</u></b>
<b><u>Savings Account</u></b>		
Co-operative bank Instant	1,464,516	1,746,091
Kuscco Jungu Kuu savings	692,900	688,586
Equity bank call deposit	-	20,000,000
	<b><u>2,157,416</u></b>	<b><u>22,434,676</u></b>
<b><u>Mobile Banking</u></b>		
Mpesa float - Safaricom	120,497	120,497
MSacco deposit (Mobile banking)	5,167,307	2,943,216
Sky World (Mobile banking)	20,928,049	12,111,367
	<b><u>26,215,853</u></b>	<b><u>15,175,080</u></b>
<b>Total cash at bank and cash in hand</b>	<b><u><u>177,927,417</u></u></b>	<b><u><u>155,363,025</u></u></b>
<b>(ii) <u>Short term bank deposits</u></b>		
Kuscco	-	120,000,000
Co-operative bank	60,000,000	-
Equity bank	206,204,035	55,000,000
<b>Total short term bank deposits</b>	<b><u><u>266,204,035</u></u></b>	<b><u><u>175,000,000</u></u></b>

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

**NOTES (CONTINUED)**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>7. Receivables and prepayments</b>		
<b>Deposits and prepayments</b>		
Prepaid staff medical insurance	3,419,210	2,731,074
Debtors - Deposit with Metropol & KPC	161,269	8,800
Receivable from Kuscco	-	450,000
Prepaid insurance	900,994	896,880
<b>Total deposits &amp; prepayments</b>	<u>4,481,473</u>	<u>4,086,754</u>
Loan interest receivable	2,763,569	2,348,378
CIC insurance claims receivable	20,044,495	13,133,994
	22,808,064	15,482,372
Impairment allowance	(11,908)	(6,405)
	<u>22,796,156</u>	<u>15,475,967</u>
	<u>27,277,629</u>	<u>19,562,721</u>

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

**8. Loans and advances**

At start of year	2,947,554,739	2,511,183,920
Disbursed during the year	2,850,026,400	3,006,568,771
Loan repayment during the year	(2,657,683,317)	(2,558,668,213)
	3,139,897,822	2,959,084,478
Provision for impairment of loans	(27,828,193)	(11,529,739)
At year end	<u>3,112,069,629</u>	<u>2,947,554,739</u>

**Movement in provisions for impairment of loans**

At start of year	11,529,739	9,764,459
Prior year adjustments:		
- IFRS 9 transition adjustment	-	-
At start of year - as restated	11,529,739	9,764,459
Expected credit loss provision	16,298,454	1,765,280
At end of year	<u>27,828,193</u>	<u>11,529,739</u>

**NET INCREASE IN ALLOWANCE FOR EXPECTED CREDIT LOSSES**

Increase in allowance for expected credit losses on loans and advances	16,298,454	1,765,280
Increase in allowance for expected credit losses on cash and bank	3,780,532	-
Increase in allowance for expected credit losses on other receivables	5,503	-
	<u>20,084,489</u>	<u>1,765,280</u>

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

	<b>2021</b>		
	<b>Gross amount</b>	<b>ECL allowance</b>	<b>Carrying amount</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
Taratibu, normal, makao, super loan and staff car loans	2,682,328,376	11,126,095	2,671,202,281
Almasi loans	52,100,509	-	52,100,509
Emergency loans	34,149,564	137,432	34,012,132
FOSA loans	332,265,058	1,849,764	330,415,294
All other loans	39,054,315	14,714,902	24,339,413
	<u>3,139,897,822</u>	<u>27,828,193</u>	<u>3,112,069,629</u>
	<b>2020</b>		
	<b>Gross amount</b>	<b>ECL allowance</b>	<b>Carrying amount</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
Taratibu, normal, makao, super loan and staff car loans	2,470,328,064	6,420,089	2,463,907,975
Almasi loans	53,571,805	-	53,571,805
Emergency loans	27,335,178	68,919	27,266,259
FOSA loans	397,348,701	1,389,668	395,959,033
All other loans	10,500,730	3,651,063	6,849,667
	<u>2,959,084,478</u>	<u>11,529,739</u>	<u>2,947,554,739</u>

**NOTES (CONTINUED)**

**8 Loans and advances (continued)**

The provisions against loans and advances include the following:-

		Total provision as per statutory regulations	Impairment provision as per IFRS	Statutory loan loss reserve	Annual transfer to statutory loan loss reserve	
<b>Year end 31 December 2021</b>						
Loan and advances		81,599,691	27,828,193	53,771,498	21,608,037	
<b>Year end 31 December 2020</b>						
Loan and advances		43,693,200	11,529,739	32,163,461	4,358,549	
<b>Provision as per statutory regulations</b>						
<b>Category</b>	<b>Duration</b>	<b>Number of accounts</b>	<b>Loan Portfolio Shs</b>	<b>Rate (%)</b>	<b>Provision</b>	
					<b>2021 Shs</b>	<b>2020 Shs</b>
Performing	- 0 day	4,234	2,990,624,962	1	29,906,250	28,853,963
Watch	- 1 - 30 days	94	74,577,556	5	3,728,878	2,866,998
Substandard	- 31 - 180 days	28	35,640,988	25	8,910,247	1,458,661
Doubtful	- 181 - 360 days	-	-	50	-	-
Loss	- Over 360 days	978	39,054,316	100	39,054,316	10,513,578
			<u>3,139,897,822</u>		<u>81,599,691</u>	<u>43,693,200</u>

All loans are dominated in Kenya Shillings.

**(i) IFRS 9 provisions**

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2021 is shown below. Comparative amounts for 2020 represent allowance account for credit losses and reflect measurement basis under IFRS 9.

	2021				2020 Shs
	Stage 1 12-month ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total Shs	
At start of year	(6,420,089)	(1,458,587)	(3,651,063)	(11,529,739)	2,947,554,739
Measurement of IFRS 9 provision	(12,967,073)	(146,219)	(14,714,902)	(27,828,194)	-
Net transfer between stages 1, 2 and 3	6,546,984	(1,312,368)	11,063,839	16,298,455	-
Net remeasurement of impairment					
	<u>(12,967,073)</u>	<u>(146,219)</u>	<u>(14,714,902)</u>	<u>(27,828,194)</u>	<u>2,947,554,739</u>

**NOTES (CONTINUED)**

<b>9. Other financial assets</b>	<b>2021 Shs</b>	<b>2020 Shs</b>
At start of year	72,935,646	96,710,329
Additions	10,625,000	-
Fair value gain / (losses)	<u>1,596,835</u>	<u>(23,774,683)</u>
	<u><u>85,157,481</u></u>	<u><u>72,935,646</u></u>

<b>Fair value through other comprehensive income</b>	<b>No. of Shares</b>	<b>Market Price per Share</b>		
Co-opholdings Co-operative Society Limited	11,156,118	7.40	82,555,273	70,333,438
Co-operative Insurance Society Limited	540,432	3.50	1,891,512	1,891,512
KUSCCO Limited	7,107	100.00	<u>710,696</u>	<u>710,696</u>
<b>Total other financial assets</b>			<u><u>85,157,481</u></u>	<u><u>72,935,646</u></u>

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

Dividend income	<u>9,093,794</u>	<u>9,180,167</u>
-----------------	------------------	------------------

The fair values of financial assets are categorised as follows based on the information set out on accounting policy (Note 1(g)).

<b>Year ended 31 December 2021</b>	<b>Level 2 Shs</b>	<b>Level 3 Shs</b>	<b>Total Shs</b>
Fair value through other comprehensive income	<u>84,446,785</u>	<u>710,696</u>	<u>85,157,481</u>
<b>Year ended 31 December 2020</b>			
Fair value through other comprehensive income	<u>72,224,950</u>	<u>710,696</u>	<u>72,935,646</u>

Market risk primarily arises from the changes in the market value and the financial stability of the respective quoted companies.

Management monitors the quality of financial assets by:

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

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

**NOTES (CONTINUED)****10. Property and equipment****Year ended 31 December 2021**

	<b>Furniture and fittings Shs</b>	<b>Computers and accessories Shs</b>	<b>Office equipments Shs</b>	<b>Leasehold improvements Shs</b>	<b>Total Shs</b>
<b>Cost</b>					
At start of year	3,040,849	12,965,823	3,095,024	3,508,368	22,610,064
Additions	525,821	632,340	346,724	1,140,707	2,645,592
At end of year	<u>3,566,670</u>	<u>13,598,163</u>	<u>3,441,748</u>	<u>4,649,075</u>	<u>25,255,656</u>
<b>Accumulated depreciation</b>					
At start of year	2,119,218	9,262,701	1,303,015	1,748,555	14,433,489
Charge for the year	122,836	1,339,630	199,426	290,052	1,951,945
At end of year	<u>2,242,054</u>	<u>10,602,331</u>	<u>1,502,441</u>	<u>2,038,607</u>	<u>16,385,434</u>
<b>Net book value</b>	<u><b>1,324,616</b></u>	<u><b>2,995,832</b></u>	<u><b>1,939,307</b></u>	<u><b>2,610,468</b></u>	<u><b>8,870,223</b></u>

**Year ended 31 December 2020**

	<b>Furniture and fittings Shs</b>	<b>Computers and accessories Shs</b>	<b>Office equipments Shs</b>	<b>Leasehold improvements Shs</b>	<b>Total Shs</b>
<b>Cost</b>					
At start of year	3,040,849	10,233,308	2,639,594	2,822,746	18,736,497
Additions	-	2,732,515	455,430	685,622	3,873,567
At end of year	<u><b>3,040,849</b></u>	<u><b>12,965,823</b></u>	<u><b>3,095,024</b></u>	<u><b>3,508,368</b></u>	<u><b>22,610,064</b></u>
Accumulated depreciation					
At start of year	2,016,815	8,405,580	1,138,008	1,596,796	13,157,199
Charge for the year	102,403	857,121	165,007	151,759	1,276,290
At end of year	<u><b>2,119,218</b></u>	<u><b>9,262,701</b></u>	<u><b>1,303,015</b></u>	<u><b>1,748,555</b></u>	<u><b>14,433,489</b></u>
<b>Net book value</b>	<u><b>921,631</b></u>	<u><b>3,703,122</b></u>	<u><b>1,792,009</b></u>	<u><b>1,759,813</b></u>	<u><b>8,176,575</b></u>

**11. Intangible assets (software)**

	<b>2021 Shs</b>	<b>2020 Shs</b>
<b>Cost</b>		
At start of year	11,095,856	10,966,238
Additions	-	129,618.00
At end of year	<u>11,095,856</u>	<u>11,095,856</u>
<b>Amortisation</b>		
At start of year	6,930,003	6,479,132
Charge for the year	416,585	450,871
At end of year	<u>7,346,588</u>	<u>6,930,003</u>
<b>Net book values</b>	<u><b>3,749,268</b></u>	<u><b>4,165,853</b></u>

Amortisation costs of Shs. 416,585 (2020: Shs. 450,871) are included in other operating expenses in the profit or loss.



**NOTES (CONTINUED)**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>12. Payables</b>		
Trade payables	122,337	284,603
Honorarium provision	7,748,981	7,970,301
	<u>7,871,318</u>	<u>8,254,904</u>
<b>Other payables</b>		
Ex-members creditors	15,805,559	10,051,006
Proposed staff motivation	1,769,893	3,119,840
Unclaimed deposits	1,601,831	2,019,141
Levy on member deposit payable	3,611,803	3,322,729
Excise duty	156,302	102,930
Withholding tax payable	19,975	3,881
Audit fees payable	332,269	777,084
Other payables	102,633	338,706
Value added tax (VAT) payable	2,036	24,367
Payroll liabilities	1,310,484	1,868,031
	<u>24,712,785</u>	<u>21,627,714</u>
<b>Total payables</b>	<u>32,584,103</u>	<u>29,882,618</u>

**13. Interest due to members**

a) **To members**

At the start of the year	243,950,636	199,061,454
Provisions for the year	244,246,195	243,950,636
Payments during the year	(243,950,636)	(199,061,454)
At end of year	<u>244,246,195</u>	<u>243,950,636</u>

b) **Savings deposits**

At the start of the year	10,810,043	9,249,686
Provisions for the year	9,789,087	10,810,043
Payments during the year	(10,810,043)	(9,249,686)
	<u>9,789,087</u>	<u>10,810,043</u>

Total interest due	<u>254,035,282</u>	<u>254,760,679</u>
--------------------	--------------------	--------------------

The directors recommended a provision of 11% (2020: 12%) interest on members deposits and 6.5% (2020: 6.5%) on members savings.

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

**14. Members' deposits**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>Non withdrawable deposits</b>		
At start of year	2,102,583,243	1,921,245,900
Contribution during the year	319,723,282	292,642,799
Withdrawal during the year	(129,830,190)	(111,305,457)
At end of year	<u>2,292,476,335</u>	<u>2,102,583,243</u>
<b>Savings deposits</b>		
At start of year	305,285,721	293,906,443
Net (decrease) / increase during the year	(25,178,449)	11,379,278
At end of year	<u>280,107,272</u>	<u>305,285,721</u>
<b>Total members' deposits</b>	<u>2,572,583,607</u>	<u>2,407,868,964</u>

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

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

**NOTES (CONTINUED)**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>15. Tax receivable</b>		
At start of year	(7,971,407)	(10,481,783)
Income tax expense	4,065,331	2,510,376
Tax paid	<u>(2,983,787)</u>	<u>-</u>
At end of year	<u><u>(6,889,863)</u></u>	<u><u>(7,971,407)</u></u>

**16. Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2020: 25%) on temporary differences other than fair value gains on unquoted financial assets which apply a rate of 5% (2020: 5%) as the rate for capital gains tax. The movement on the deferred tax account is as follows:

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
At start of year	2,533,165	3,721,899
(Credit)/charge to other comprehensive income	<u>79,842</u>	<u>(1,188,734)</u>
At end of year	<u><u>2,613,007</u></u>	<u><u>2,533,165</u></u>

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

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>17. Share capital</b>		
At start of year	111,543,083	108,952,723
Contributions for the year	<u>11,805,815</u>	<u>2,590,360</u>
At end of year	<u><u>123,348,898</u></u>	<u><u>111,543,083</u></u>

**18. Reserves**

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

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
i) Statutory reserve	<u>154,514,353</u>	<u>127,933,243</u>
ii) Credit Risk reserve	<u>53,771,498</u>	<u>32,163,461</u>
iii) Fair value reserve	<u>49,647,129</u>	<u>48,130,136</u>
iv) Retained Earnings	<u>418,227,709</u>	<u>354,764,120</u>
v) Proposed dividends	<u>19,735,823</u>	<u>17,846,893</u>

The total proposed dividend for the year is 16 % of investment shares (2020: 16%) amounting to a total of Shs. 19,735,823 (2020: Shs. 17,846,893).

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

**NOTES (CONTINUED)**

19. Related party transactions	2021 Shs	2020 Shs
<b>i) Insider deposits</b>		
Total deposits and savings outstanding at end of year:		
Due to key management	2,513,290	2,330,290
Due to directors	14,355,640	8,507,842
Due to supervisory committee members	3,824,975	3,616,127
Due to other employees	<u>13,468,319</u>	<u>10,404,234</u>
Total deposits and savings	<u>34,162,224</u>	<u>24,858,492</u>
<b>ii) Key management personnel remuneration</b>		
Short term employee benefits	7,941,408	7,141,920
Honorarium/allowances	<u>7,748,981</u>	<u>7,970,301</u>
	<u>15,690,389</u>	<u>15,112,221</u>

**Loans to insiders**

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

	2021 Shs	2020 Shs
Total loans advanced during the year	<u>3,112,069,629</u>	<u>2,947,554,739</u>
Total loans outstanding at end of year:		
Loans to key management	21,069,051	16,469,156
Loans to directors	33,307,352	18,482,741
Loans to supervisory committee members	9,539,716	4,890,999
Loans to other employees	<u>68,262,995</u>	<u>44,339,012</u>
Total loans and advances	<u>132,179,114</u>	<u>84,181,909</u>

The effective interest rate on loans is 14% (2020: 15%)

**Insider loan ageing**

Category	Duration	Loan		2021 Shs	2020 Shs
		Portfolio Shs	Rate (%)		
Performing	0 day	132,179,114	1	1,321,791	543,876
Watch	1 - 30 days	-	5	-	-
Substandard	31 - 180 days	-	25	-	-
Doubtful	181 - 360 days	-	50	-	-
Loss	Over 360 days	-	100	-	-
		<u>132,179,114</u>		<u>1,321,791</u>	<u>543,876</u>

**20. Contingent liability**

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

**21. Risk management objectives and policies**

**Financial risk management**

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

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

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

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

**NOTES (CONTINUED)**

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

**(a) Market risk**

- *Interest rate risk*

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

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

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

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
Effect on profit - arising from loans and advance - increase	<u>23,842,941</u>	<u>21,910,904</u>
Effect on profit - arising from members deposit - (decrease)	<u>(14,853,422)</u>	<u>(14,861,040)</u>

- *Price risk*

The Society is exposed to equity securities price risk because of investments held by the Society and classified on the statement of financial position either as fair value through profit or loss or fair value through other comprehensive income.

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

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

	<b>Impact on other</b>	
	<b>comprehensive income</b>	
<b>Index</b>	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
NSE	<u>4,257,874</u>	<u>3,646,782</u>

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

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

**(b) Credit risk**

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

**NOTES (CONTINUED)**

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

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

**Credit risk measurement**

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

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

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

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

**Significant increase in credit risk**

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

**Internal credit risk rating**

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

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

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

**NOTES (CONTINUED)**

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

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

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

**Internal credit risk rating (continued)**

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

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

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

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

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

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

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

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.

**NOTES (CONTINUED)**

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

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

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

**Incorporation of forward-looking information**

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

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

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

- GDP Growth
- Unemployment rates
- Interest rates
- Inflation

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

**Measurement of ECL**

The key inputs used for measuring ECL are:

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

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

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

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

**NOTES (CONTINUED)**

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

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

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

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

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

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

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

**Groupings based on shared risks characteristics**

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

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

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



**NOTES (CONTINUED)**

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

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

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

**Credit quality**

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

<b>Year ended 31 December 2021</b>	<b>Taratibu, Normal, Makao, Superloan and staff car loans Shs</b>	<b>Almasi loans Shs</b>	<b>Emergency loans Shs</b>	<b>FOSA loans Shs</b>	<b>All other loans Shs</b>	<b>Total loans Shs</b>
<b>Loans and advances to customers</b>						
0 Days (Performing, stage 1)	2,584,507,237	44,019,479	32,276,623	329,821,622	-	2,990,624,962
1- 30 Days (Watch, stage 1)	64,394,026	7,395,000	1,263,543	1,524,988	-	74,577,556
31 - 180 Days (Substandard, stage 2 and 3)	33,427,113	686,030	609,397	918,448	39,077,327	74,718,315
	<u>2,682,328,376</u>	<u>52,100,509</u>	<u>34,149,564</u>	<u>332,265,058</u>	<u>39,077,327</u>	<u>3,139,920,833</u>
<b>Year ended 31 December 2020</b>						
<b>Loans and advances to customers</b>						
0 Days (Performing, stage 1)	2,465,496,180	53,571,805	27,116,863	396,551,410	-	2,942,736,258
1- 30 Days (Watch, stage 1)	4,796,033	-	224,250	814,359	-	5,834,642
31 - 180 Days (Substandard, stage 2 and 3)	-	-	-	-	10,513,578	10,513,578
	<u>2,470,292,213</u>	<u>53,571,805</u>	<u>27,341,113</u>	<u>397,365,769</u>	<u>10,513,578</u>	<u>2,959,084,478</u>

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

**NOTES (CONTINUED)**

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

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

**Credit quality (continued)**

<b>Loans and advances to customers</b>	<b>Stage 1 12 Months ECL Shs</b>	<b>Stage 2 Lifetime ECL Shs</b>	<b>Stage 3 Lifetime ECL Shs</b>	<b>Total Shs</b>
<b>Year ended 31 December 2021</b>				
Taratibu, Normal, Makao, Super loan and Staff car loan	2,648,901,262	33,427,113	-	2,682,328,375
Almasi loans	51,414,479	686,030	-	52,100,509
Emergency loans	33,540,166	609,397	-	34,149,563
FOSA loans	331,323,601	918,448	-	332,242,049
All other loans	-	-	39,077,327	39,077,327
	<u>3,065,179,508</u>	<u>35,640,988</u>	<u>39,077,327</u>	<u>3,139,897,823</u>
Total gross credit exposure	3,065,179,508	35,640,988	39,077,327	3,139,897,823
Expected credit loss provision	<u>(12,967,073)</u>	<u>(146,219)</u>	<u>(14,714,902)</u>	<u>(27,828,194)</u>
Net credit exposure	<u><u>3,052,212,435</u></u>	<u><u>35,494,769</u></u>	<u><u>24,362,425</u></u>	<u><u>3,112,069,629</u></u>
<b>Year ended 31 December 2020</b>				
Taratibu, Normal, Makao, Super loan and Staff car loan	2,465,496,180	4,796,033	-	2,470,292,213
Almasi loans	53,571,805	-	-	53,571,805
Emergency loans	27,116,863	224,250	-	27,341,113
FOSA loans	396,551,410	814,359	-	397,365,769
All other loans	-	-	10,513,578	10,513,578
	<u>2,942,736,258</u>	<u>5,834,642</u>	<u>10,513,578</u>	<u>2,959,084,478</u>
Total gross credit exposure	2,942,736,258	5,834,642	10,513,578	2,959,084,478
Expected credit loss provision	<u>(6,420,089)</u>	<u>(1,458,587)</u>	<u>(3,651,063)</u>	<u>(11,529,739)</u>
Net credit exposure	<u><u>2,936,316,169</u></u>	<u><u>4,376,055</u></u>	<u><u>6,862,515</u></u>	<u><u>2,947,554,739</u></u>

**Collateral held as security**

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

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

**NOTES (CONTINUED)**

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

**(c) Liquidity risk**

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

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

<b>Year ended 31 December 2021</b>	<b>Current to 1 year Shs</b>	<b>1 to 5 years Shs</b>	<b>Total Shs</b>
- Member deposits	280,107,272	2,292,476,335	2,572,583,607
- Other payables	32,584,103	-	32,584,103
- Interest due	254,035,282	-	254,035,282
	<u>566,726,657</u>	<u>2,292,476,335</u>	<u>2,859,202,992</u>
<b>Year ended 31 December 2020</b>			
- Member deposits	115,392,629	2,102,583,243	2,217,975,872
- Other payables	29,882,618	-	29,882,618
- Interest due	254,760,679	-	254,760,679
	<u>400,035,926</u>	<u>2,102,583,243</u>	<u>2,502,619,169</u>

**22. Capital management**

**Internally imposed capital requirements**

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

The capital structure of the Society consists of net debt calculated as sum of total borrowings and member's deposit (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising investment shares, reserves and appropriation account). The directors review the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In order to maintain the capital structure, the Society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The Society's overall strategy remains unchanged from 2018.

The debt-to-capital ratios at 31 December 2021 and 2020 were as follows:

	<b>2021 Shs</b>	<b>2020 Shs</b>
Total members deposits (Note 14)	<u>2,572,583,607</u>	<u>2,407,868,964</u>
Total cash and bank balances (Note 6)	<u>437,047,316</u>	<u>327,059,421</u>
Net debt	<u>2,135,536,291</u>	<u>2,080,809,543</u>
Total equity	<u>819,245,410</u>	<u>692,380,936</u>
Gearing ratio	<u>2.6:1</u>	<u>3:1</u>

**NOTES (CONTINUED)**

**22. Capital management (continued)**

**Externally imposed capital requirements**

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

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

The ratios at 31 December 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>a) Core capital of not less than Shs 10 million</b>		
As per statement of financial position	<u>819,245,410</u>	<u>692,380,936</u>
<b>b) Core capital of not less than 10% of total assets;</b>		
As per statement of financial position	<u>22%</u>	<u>20%</u>
<b>c) Institutional capital of not less than 8% of total assets</b>		
As per statement of financial position	<u>19%</u>	<u>17%</u>
<b>d) Core capital of not less than 8% of total deposits.</b>		
As per statement of financial position	<u>32%</u>	<u>29%</u>

**23. Other administrative expenses**

Printing and stationery	650,083	532,451
Security services	647,520	664,508
Telephone and postage	866,812	734,111
Auditor's remuneration	808,752	773,446
Other office expenses	527,274	474,904
Legal expenses	603,030	2,161,513
Consultancy services	319,000	899,000
Corporate social responsibility	80,000	500,000
Marketing and advertisement	3,174,447	668,667
Bulk SMS purchase spot cash	896,438	1,016,358
Bank charges	1,972,268	1,462,489
Entertainment expenses	133,265	-
Strategic planning	2,294,202	-
Levy on member deposits	<u>3,611,803</u>	<u>3,322,729</u>
<b>Total other administrative expenses</b>	<u><b>16,584,894</b></u>	<u><b>13,210,176</b></u>

**NOTES (CONTINUED)**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>24. Other operating expenses</b>		
Depreciation on property and equipment	1,951,946	1,276,289
Amortisation of intangible assets	416,585	450,871
Licence and subscriptions	1,007,310	476,766
Insurance	10,355,772	10,095,298
Repair and maintenance	1,113,062	454,320
Bad debts written off	1,248,457	353,179
ATM connectivity fee	83,520	141,079
	<hr/>	<hr/>
<b>Total other operating expenses</b>	<b><u>16,176,652</u></b>	<b><u>13,247,802</u></b>

**25. Incorporation**

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

**26. Presentation currency**

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