KIMISITU
SACCO LTD.
Your Partner to Prosperity

ANNUAL REPORT
& FINANCIAL STATEMENTS
2023

KIMISITU SACCO IS REGULATED BY **SASRA**

#YourPartnerToProsperity

KIMISITU
SACCO LTD.
Your Partner to Prosperity

Vision

Everyone who wants financial independence is joining Kimisitu.

Mission

We are committed to championing the financial independence of all our members

Core Values

In all our services to members and customers, we shall be bound by the following values.

- Customer focus
- Agile
- Synergy
- Happiness

Motto

"Your partner to prosperity"

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SOCIETY'S INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2023

BOARD OF DIRECTORS

Chris Duncan Agunga	Chairman
Peter Mutugi Kirimi	Vice Chairman
Banice Mbuki Mburu	Hon. Secretary
Ken Njogu Mwangi	Treasurer
Jotham Opiyo Opiyo	Director
Faith Nanyama Munyasi	Director
Philip Nzioki Mutisya	Director
Benard Otsieno Ayieko	Director
Dr. Esther Waruiru Kago	Director
Ronald Mujete Mugera	Retired (12th March 2023)
Evaline Akinyi Ochieng	Retired (12th March 2023)

AUDIT AND RISK COMMITTEE

Jotham Opiyo Opiyo	Chairman
Phillip Nzioki Mutisya	Secretary
Dr. Esther Waruiru Kago	Director

SUPERVISORY COMMITTEE

Margaret Wanjiru Wanjiku	Chairman
Eunice Moraa Momanyi	Secretary
Amos Atuya Nyakundi	Director
Frank Ottieno Odhiambo	Retired (12th March 2023)

MANAGEMENT STAFF

Lwanga Mbeche Caroly	C.E.O
Purity Nkui Ntoiti	Finance Manager
Catherine Achieng Odhiambo	Credit Manager
Jonathan Asena Mtange	Business Development & Marketing Manager
Purity Muthoni Kimathi	FOSA Manager
Doreen Auma Othieno	HR & Admin Manager
Ruth Wambui Kimani	ICT Manager
Elijah Walekhwa Musungu	Internal Audit Manager
Tobias Achieng'a Opany	Senior Procurement Officer

REGISTERED OFFICE

AEA PLAZA VALLEY ROAD
P.O Box 10454-00100 Nairobi, Kenya
Telephone: +254 709 136 000
Nairobi, Kenya
Emai: customercare@kimisitusacco.or.ke

AUDITOR

PricewaterhouseCoopers LLP
PwC Tower
Waiyaki Way/Chiromo Road
Westlands
P.O. Box 43963 - 00100
Nairobi, Kenya

PRINCIPAL BANKERS

NCBA Bank Kenya Limited
Mamlaka Road Branch
P.O Box 30437-00100 Nairobi, Kenya

Kenya Commercial Bank Limited
Hurlingham Branch
P.O. BOX 48400-00100

Co-operative Bank of Kenya Limited
Nairobi Business Centre Branch
P.O Box 46773-00100 Nairobi Kenya

BOARD OF DIRECTORS

Duncan Chris Agunga
Chairman

Peter Mutugi Kirimi
Vice Chair

Banice Mbuki Mburu
Hon. Secretary

Ken Njogu Mwangi
Treasurer

Jotham Opiyo
Chairman - Audit & Risk Management Committee

Faith Nanyama Munyasi
Chairperson - ICT Committee

Philip Nzioki
Chairman - Credit Committee

Benard Ayieko
Director

Dr. Esther Waruiru Kago
Director

SUPERVISORY COMMITTEE

Margaret Wanjiru Wanjiku
Chairperson

Eunice Moraa Momanyi
Secretary

Amos Atuya Nyakundi
Committee Member

MANAGEMENT STAFF

Lwanga Mbeche
Chief Executive Officer

Catherine Odhiambo
Credit Manager

Purity Ntoiti
Finance Manager

Jonathan Mtange
Marketing and Business Development Manager

Purity Kimathi
FOSA Manager

Doreen Othieno
HR & Admin Manager

Ruth Wambui Kimani
ICT Manager

Elijah Walekhwa Musungu
Internal Audit Manager

Tobias Achieng'a Opany
Snr. Procurement Officer

NOTICE OF THE 39TH ANNUAL GENERAL MEETING

TO ALL MEMBERS OF KIMISITU SACCO SOCIETY LIMITED

Notice is hereby given of the 39th Annual General Meeting which will be held on **Saturday, 23rd March 2024** at **KICC, Tsavo Ball Room, Nairobi** & **virtually via Livestream link starting at 9.00am** to transact the following business:

1. To read the notice convening the 39th Annual General Meeting.
2. To Adopt and Confirm Minutes of the General Meetings and discuss matters arising therefrom.
3. To receive and adopt the Chairman's Report.
4. To receive address by the Guest of Honour.
5. To receive and adopt the Supervisory Committee Report.
6. To receive and adopt the Audited Financial Statements for the year ended 31st December 2023.
7. To present the Year 2025 Proposed Budget & Amendments to Year 2024 Budget.
8. To appoint the Auditors for the year 2024.
9. To Pass AGM Resolutions (Itemized resolutions are available on the web portal)
10. Any Other Business - A.O.B should be emailed to ceo@kimisitusacco.or.ke not later than 15th March 2024.
11. Elections.

Please note that the AGM notice and other necessary documents can be accessed from Kimisitu SACCO Web portal https://portal.kimisitusacco.or.ke.

BY ORDER OF THE BOARD

BANICE MBUKI MBURU
HON. SECRETARY

KIMISITU SACCO AGM PROGRAMME

SATURDAY 23RD MARCH 2024

9.00 AM -	Opening Prayers
9.05 AM -	Introduction of Board, Supervisory Committee and Secretariat Members
9.10 AM -	Reading of the Notice of the 39th AGM & adoption of Agenda
9.15 AM -	Confirmation of previous minutes & Update on Matters Arising
9.20 AM -	Chairperson's Report
9.35 AM -	Guest of Honour's Speech
10.00 AM -	Supervisory Committee Report
10.20 AM -	Presentation of Audited Accounts as at 31st Dec 2023 & Auditors Report
10.40 AM -	Budget Proposal 2025 & Amendments to Year 2024 Budget
11.10 AM -	Appointment of 2024 Auditors
11.25 AM -	AGM Resolutions
12.25 PM -	Elections
01.25 PM -	Vote of thanks
1.30 PM -	Closing Prayer

MINUTES OF KIMISITU SACCO LTD SPECIAL GENERAL MEETING

HELD ON SATURDAY, 27TH MAY 2023 AT PCEA ST. ANDREWS CHURCH - NAIROBI

ATTENDANCE

BOARD of Directors Present

1. Chris Agunga - Chairperson
2. Peter Kirimi - Vice Chairperson
3. Ken Njogu - Treasurer
4. Banice Mbuki Mburu - Hon. Secretary
5. Jotham Opiyo - Chairman Audit Risk Management Committee
6. Faith Munyasi - Chairperson - Information Communication & Technology committee
7. Philip Nzioki - Credit Committee Member
8. Benard Ayieko - Business Development & Education Committee Member
9. Dr. Esther Kago - Chairperson - Business Development & Education Committee

Supervisory Committee Present

1. Margaret Wanjiku - Chairperson
2. Eunice Moraa - Secretary
3. Amos Atuya - Member

Members Present

The meeting was a physical meeting attended by 763 members.

Guests in attendance

1. Dolphine Aremo - Co-operative Director, Nairobi County
2. Njoroge Mwangi - Co-operatives Officer, Dagoretti Sub-County

PREAMBLE

The meeting was called to order by the Chairperson at 9:15 a.m with a word of prayer from M/NO 011515.

MIN 1/27/05/SGM/2023 READING OF NOTICE AND ADOPTION OF THE AGENDA

The notice of the Special General Meeting dated 12th May 2023 was read out by the Honorary Secretary and the following agenda adopted including the 3 additional agenda items on amendment to BOARD membership requirements, Forensic Audit and Kenya Mortgage & Refinance Company which were not originally in the circulated notice:

AGENDA

1. To read the notice convening the Special General Meeting
2. To present and approve the Year 2024 Proposed Budget & Amendments to Year 2023 Budget
3. Amendment to BOARD membership eligibility requirements
4. Forensic Audit
5. Kenya Mortgage & Refinance company
6. Any Other Business

The notice of the general meeting and agenda was proposed by M/NO 014234 and seconded by M/NO 004199.

MIN 2/27/05/SGM/2023- CHAIRPERSON'S OPENING REMARKS

The Chairman, Mr. Chris Duncan Agunga acknowledged the members commitment to the SACCO and appreciated the support the members have accorded the BOARD of Directors and the SACCO overtime. The Chairman urged the members to fully participate in the proceedings and pass the budget to ensure that the SACCO operate optimally. The Chairman also encouraged members to use the existing official channels of communication and give ideas that can grow the SACCO. He pointed out that as much as the members are free to give their feedback both positive and negative, its also important to note that Kimisitu as a financial institution is very sensitive to information which can affect its business and the going concern.

MIN 3/27/05/SGM/2023 PRESENTATION & APPROVAL OF THE PROPOSED BUDGET 2024 & AMENDMENTS TO THE YEAR 2023 BUDGET

The proposed 2024 budget and amendments to 2023 budget were presented by the treasurer, Ken Njogu. The budget as presented was proposed by M/NO 000421 and seconded by M/NO 009628.

Matters arising from the Budget

- **M/NO.004930** inquired on how the growth in active membership in year 2023 will help in realizing the projected income of Kes.1.58billion which is 36% increase. He also highlighted that in year 2022, Quarter 1, the loan book was Kes.6.3billion while as at December 2022 it was at Kes.6.9billion and sort to know why 91% of the SACCO activities are undertaken in the first quarter and not much in the subsequent 3 quarters. He further commented that the Sacco budget is a cash-based budget and hence the Sacco should show where the funds come from and how they are spent.

  The BOARD clarified that the SACCO only does business with its members and therefore the growth of the membership will provide more market opportunities for the SACCO and improve the uptake of products offered by the SACCO. The presentation indicated that the SACCO grew its loan book from Kes.6.3billion to Kes.6.9billion in the entire year 2022 and not in the first quarter. The BOARD elaborated that the SACCO do not do a cash-based budget but rather generate revenues which it spends in its various business activities.

- **M/NO. 002552** referring to the chairman's remarks which painted a gloomy picture of the economy and given that the SACCO fell short by 15% the budgeted income in year 2022.He pointed out that the budgeted income for year 2023 was projected at Kes.1.5 Billion and inquired what the BOARD and management are planning to do and whether the SACCO will be able to achieve this income given the crunch in the economy.

  The BOARD further elaborated that with the first quarter performance the SACCO will attain total revenues of Kes.1.296billion and is working on the strategies to realise projected revenue deficit by close of the financial year through review of products, loan promotions partnerships through Makao Halisi loan and targeting loanless members.

- **M/NO 002552** sought an explanation why the BOARD governance budget was overspent by Kes.929,020.

  It was clarified that the BOARD governance surpassed the budget by 5% due to increased number of trainings and escalating training costs. There were numerous new developments in the movement which the directors needed to be in tandem with through more forums and trainings to ensure the benefit from the new developments.

- **M/NO.014234** (014234) commended the BOARD and management for cutting the budgets. She sought understanding on whether the capital expenditure was included in the revised Administrative & operating expense in 2023 budget.

  The capital budget is not included in the operating budget (recurrent budget) but considered on its own for assets that will be used for a period of more than 12months.

- **M/NO 012186** commented that what happens in the BOARD is the reason for the formation of the whatsapp groups and insisted that they are for the betterment of the SACCO. He suggested that the meeting should cut on the BOARD travels, sitting allowances and trainings by leveraging on technology and adopting online meetings and trainings to ensure members get value for their money.

  The board highlighted that over 95% of their meetings are online and had been considered when budgeting for travels. The Board is also indicated that most relevant trainings opportunities are more physical with few offered online.

- **M/NO 009076** indicated that there should be a breakdown of costs citing the strategic plan costs, advertising & marketing, consultancy, and professional fees. He noted that the breakdown of costs and detailed notes will enable members confirm whether the costs are justifiable. He was not agreeable to the members cutting on the staff budgets.

  The board provided a breakdown of the strategic plans costs which included the plannings meetings and workshops. Advertisement & marketing which included mainstream media advertisements, marketing materials,influencer,social media marketing, one member campaign and surveys costs among others. The consultancy budget included consultancies on IFRS 9, staff job evaluation, policy reviews,tax,outsourced managed systems security services, systems audit and data protection.

- **M/NO. 015931** noted that the revised budget presented had been cut by Kes.100million from the initial budget presented during the AGM and urged members not to approve the budget but return it to realize more budget cuts. He indicated that the variances in the budget which has not been accounted for. He reiterated that each item in the budget on BOARD expense should be explained and equally suggested zero training budget for staff.

  The BOARD responded that the SACCO spend on various business activities to generate its income. Cutting the budget further may affect revenue generation. The SACCO has put a cap of how much it can spend to generate a particular amount of income. Currently the SACCO cannot spend more than Kes.27 to generate Kes.100 revenue. The variances in the expenditure were only on the governance costs which exceeded by 5% and members' expenses which exceeded by 19% and these were explained.

  The Director for Co-operatives, Nairobi County, Madam Aremo guided that the members take a vote whether they would wish to continue with the budget discussions & approval or return the budget for further review in another special general meeting. 74 members out of 102 members present confirmed their wish to continue with the budget discussions, reviews and approval.

- **M/NO. 013747** suggested to the Director of Co-operatives need to have an investor association for the entire co-operative movement for members education. She pointed out that the staff training budget should be broken down.

- **M/NO.009828** pointed out that the Sacco needs to think on digital tools to cut on costs including on-line platforms for BOARD training, strategic planning and consider online advertising on on-line platforms rather than the mainstream media and also put more information on on-line platforms for new BOARD members to have access on the same. She proposed that the BOARD training budget for 2024 be cut by half.

- **M/NO. 012530** pointed out lack of stewardship in the BOARD and management and therefore proposed that staff training budget be reduced to 70% since 40% had already been spent by May 2023.

- **M/NO.008296** proposed that the staff training budget for year 2024 be reduced by 50%.

- **M/NO. 002552** pointed out that the budget should be data driven looking at the actual amount spent on advertising, marketing and publicity of Kes.9.7m vis -a - vis the budget of Kes.16M in year 2022 and what the SACCO intends to do in year 2023 hiking the budget to Kes.23m.

  The BOARD clarified that budget is a guide and the more the SACCO can spend less to generate, the better for the members. The SACCO intended to get into aggressive marketing using the mainstream media which is impactful because of the larger outreach though costly.

- **M/NO. 009210** commended the digitization progress in the SACCO. The members also commended the one-member campaign but had reservations in terms of costs given the current economic situation. She proposed that it can be strategically looked at as a fundraising opportunity and leveraged on to recruit new members. A multifaceted campaign should be discussed strategically to attract more members.

- **M/NO.009628** pointed out that the official whatsapp groups should be a two-way communication tools to enable members engage with staff and allow members to communicate and give constructive feedback and criticism.

- **M/NO. 007046** expressed that the members were not happy with the budget presented. She highlighted the increase of advertising budget of Kes.6M and urged the members to only approve what is necessary and leave out the rest.

- **M/NO.012530** indicated that things have changed, and people have shifted to using online platforms for publicity and therefore mainstream media may not add value to the SACCO.
- **M/NO 007046** sought to know the number of BOARD meetings in a period of one month.
- **M/NO. 018773** pointed out that BOARD members can be bought for modems and internet paid for to support virtual meetings and remove the BOARD travel line from the budget.

  The BOARD clarified that the directors hold an average of 5 committee meetings per month considering the 5 BOARD committees and directors being members of more than one committee. Over 95% of the BOARD and BOARD committee meetings are conducted online.

- **M/NO. 001145** pointed out that the BOARD sitting allowance had remained constant and should be reviewed. She urged the members to reduce the meeting facilitation and sitting allowance budget.
- **M/NO.021052** (M/NO 021052) proposed that BOARD trainings be conducted in Nairobi and not Mombasa to cut on costs. The BOARD training expense to be reduced and BOARD travel for year 2024 be cut as well by 50% and the BOARD embrace on-line training.

  It was clarified that the training courses are conducted by external providers who in their annual trainings' calendars set the training venues and therefore the BOARD may have no control of training locations. After lifting the Covid -19 restrictions most trainers resorted to physical training.

- **M/NO.006322** applauded the members for raising questions on the budget. He noted the many gaps on the budget need addressed clearly and that budgets need to be shared in good time for members to review.
- **M/NO. 009076** complained that the information being provided on the floor on the BOARD training was not provided earlier by the BOARD, yet it was requested for by the membership during the AGM.
- **M/NO. 011343** pointed out that members are not clear on what budget amendments are being made, that there's a mix-up on the 2023/2024 budget and therefore the entire process should be halted.

  It was clarified that the proposed budget 2024 and amended budget 2023 are clearly stipulated which each with its budget notes.

- **M/NO.015347** urged that the Sacco management should develop a standard budgeting framework and acquire expertise from the membership.
- **M/NO.004930** pointed out that the last 3 items, amortization, depreciation, and loan loss provision are non-cash items and should be struck out of the financial budget.

  The BOARD responded that the SACCO budget is not a cash-based budget and therefore amortization, depreciation and loan loss provision affect the net income surplus and therefore must be included in the budget.

- **M/NO 020454** sought clarity on strategic planning & review, the cost for internal reviews and the part of costs that are budgeted for an external consultant.

  It was clarified that the strategic planning budget for external consultant was budgeted at Kes.2million and while the costs of workshops and engagements amounted to Kes.5.8million.

- **M/NO.013747** urged the members to allow the C.E.O to confirm whether the Strategic planning and review budget is sufficient for him to work. Judy proposed that the budget line for strategic planning and review remains as is. This was supported by M/NO 009828.
- **M/NO. 002552** wanted to know what informed the increase in budget on debt management to Kes.481,153 while on 5% of the approved budget of Kes.363,000 was used in year 2022.

  The BOARD responded that the non-performing loans went up and members have expressed the need for SACCO to do more to protect the guarantors. The SACCO will therefore require staff to go out in the field to follow guarantors and to cover the costs of tribunals.

- **M/No 011515** (M/NO 011515) sought to know why the licenses and compliance costs was Kes.11.7m and now the BOARD is proposing an increase to Kes.14.5million.

The board clarified that the licence & compliance costs are paid to the regulator SASRA at 0.15% of the deposits. The board had also factored in the budget a charge of 0.05% of the deposits to the deposits guarantee fund which it anticipated to be implemented by the regulator in the course of the year.

- **M/NO. 015052** sought to know the costs of core system and licenses and why the core system was being decommissioned instead of having a system which is upgradable.

  The board provided the costs of the core system licences and clarified that the SACCO would be upgrading the current system and not commissioning a new system.

- **M.NO.006179** sought to know what new additions went into the consultancy fee budget increasing the budget to Kes.19,508,478 from the AGM presented figure of Kes.11,095,000

  The BOARD clarified that the projected budget revised to Kes.15m from Kes.11M due to inclusion of data protection compliance, IFRS 9 and system vulnerability assessment consultancies.

The year 2024 proposed budget and amendments to year 2023 budget was approved with amendments on staff training, BOARD sitting allowances, BOARD training, BOARD travel, strategic planning and review, marketing & publicity and consultancy & professional fees. The members also approved a Forensic Audit budget of Kes 15 Million.

Amended Budget Item	Year 2023		Year 2024	
	Presented	Approved	Presented	Approved
Staff training	Kes.12,376,969	Kes.8,663,878	Kes.14,886,000	Kes.7,443,000
BOARD Sitting Allowances	Kes.10,512,000	Kes.9,000,000	Kes.10,512,000	Kes.9,000,000
BOARD Training	Kes.3,300,000	Kes.3,300,000	Kes.3,630,000	Kes.2,300,000
BOARD Travel	Kes.942,000	Kes.471,000	Kes.942,000	Kes.471,000
Strategic Planning & Review	Kes.7,854,500	Kes.7,854,500	Kes.3,737,600	Kes.1,868,800
Advertising, Marketing & Publicity	Kes.23,536,900	Kes.16,262,600	Kes.25,788,590	Kes.20,000,000
Consultancy & Professional fees	Kes.19,508,478	Kes.15,000,000	Kes.9,845,000	Kes.9,845,000
Forensic Audit	-	Kes.15,000,000	-	

Amendments:

i. Staff training budget for year 2023 was revised to Kes.8,663,878 from Kes.12,376,969. The amendment was proposed by M/NO 012530 and seconded by M/NO 004930. Members unanimously passed the amendment.

ii. The staff training budget for year 2024 was revised downwards to Kes.7,443,000 from Kes.14,886,000. The amendment was proposed by proposed by Mutwiri Kiruki M/NNO 008296 and seconded by M/NO 00900. Members unanimously passed the amendment.

iii. The BOARD sitting allowance budget was revised to Kes 9,000,000 for both year 2023 and year 2024 from Kes.10,512,000 approved in the year 2022 AGM and similar amount proposed in year 2024.The amendment was proposed by M/NO 009628 and seconded by M/NO 006853. 96 members voted for the amendment and hence was passed by the members.

iv. The BOARD travel cost was reduced to Kes. 471,000 for both year 2023 and year 2024 from budget of Kes.942,000 in both year 2023 and year 2024.The amendment was proposed by (M/NO 014576) and seconded by M/NO 012530.96 members voted for the amendment hence the amendment passed.

v. The BOARD training cost for year 2024 was revised to Kes.2,300,000 from Kes.3,630,000. The reduction was proposed by M/NO 021052 and seconded by M/NO 009715. 68 out of 80 members voted for the amendment hence passed.

vi. Year 2024 Strategic planning & review budget was amended to Kes.1,868,800 from the initial budget of Kes.3,737,600. The amendment was proposed by M/NO 015437 and seconded by M/NO 007046.The amendment was unanimously passed by the members present.

vii. The Advertising, marketing, and publicity budget for year 2023 was amended to Kes.16,262,000 from the presented budget of Kes.23,536,900 while year 2024 budget reduced to Kes. 20,000,000 from Kes.25,788,590. The amendment was proposed by M/NO 012186 and seconded by M/NO 008296. Members unanimously passed the amendment.

viii. The year 2023 consultancy & professional fees budget was reduced to Kes.15million from presented budget of Kes.19,508,478. The amendment was proposed by M/NO 012186 and seconded by (M/NO 002552). 20 members out of 28 members present voted to pass the amendment.

MIN4/27/05//SGM/2023- AMENDMENT TO BOARD MEMBERSHIP REQUIREMENTS

The SGM revised and approved the BOARD and supervisory committee entry eligibility requirements as follows.

i. Increased the minimum share Capital to Kes.50,000 from current Kes.30,000. The amendment was proposed by M/NO 002552 and seconded by M/NO 008830.15 members out 25 members present voted to pass the amendment.

ii. Increased the minimum deposits to Kes.1,000,000 from current Kes.300,000. This was proposed by M/NO 015220 and seconded by M/NO 009210.18 members voted out of 25 members voted for the amendment.

iii. Increased the minimum period of active membership to 5 years from the current 2 years. This was proposed by M/NO 002552 and seconded by M/NO 015115). 21 members out of 25 members present voted for the amendment hence passed.

It was agreed that all revisions done in line with BOARD membership eligibility be included in the By-Laws and registered by the Commissioner of Co-operatives.

MIN 5/27/05/SGM/2023- FORENSIC AUDIT

In a memo dated 16th May 2023 sent to the Chief Executive Officer by M/NO.015931 via email, the member pointed out that in a meeting held and attended by 99 members of Kimisitu and one of the additional issues for substantive deliberations in the special general meeting was the need to conduct a Forensic Audit of the SACCO. He indicated that the members demanded a forensic audit to be conducted within 60 days after the SGM by one of the reputable big 4 audit firms and that the report and its recommendations be made available to the members. The memo stressed the need for forensic audit due to concerns regarding questionable and obscure budgeting practices, excessive ICT expenditure without provable adequate return on investments, and evident poor budget management. He further pointed out that the members had proposed that a forensic audit be conducted every three years following this initial audit.

The Subcounty Officer guided that a forensic audit is an investigation on specific matter with clear scope and terms of reference. He noted that the request to conduct the forensic was too general with no clear scope and may not be beneficial to the membership. He also pointed out that the exercise must also be included in the budget incase members decide to pass this resolution.

The following were the deliberations on the forensic audit agenda:

- M/NO. 009210 advised members to approve the forensic audit and decide on the scope later.
- M/NO. 009628 urged the members to mandate the BOARD in consultation with the management to develop and agree on the scope.
- M/NO. 01374 opined that the first forensic audit to be conducted on everything.
- M/NO. 015437 indicated that the members to decide on what we need for the forensic audit. He indicated that the SACCO may need a system audit and plug in on any gaps that need improvements.

- Forensic Audit budget of Kes.15 Million to conduct a forensic audit proposed by M/NO 015220 and seconded by M/NO 015801. 15 members out of 20 members present during the session voted to pass the forensic budget.

  It was further agreed that the audit be undertaken by one of the big 4 audit firms ,the scope and the terms of reference of the forensic audit to originate from the members. The forensic audit resolution was proposed by M/NO 015220 and seconded by M/NO 013747.

MIN 6/27/05/SGM/2023 KENYA MORTGAGE & REFINANCE COMPANY

The Chairman briefed the members on the current composition of KMRC and confirmed to the members that the SACCO had already written to KMRC expressing interest in joining the organization as a shareholder to access affordable mortgage financing for the members.

Due to time constraint the members unanimously agreed that this agenda be deferred and was therefore not discussed.

MIN 7/27/05/SGM/2023: MEETING DISSOLUTION

There being no other business, the meeting adjourned with a vote of thanks by director M/NO 007075 and a closing prayer by M/NO 002552 at 5.46p.m.

Signed

....	27th February 2024
Chairperson	**Date**
....	27th February 2024
Honorary Secretary	**Date**

MINUTES OF KIMISITU SACCO SOCIETY LIMITED 38TH ANNUAL GENERAL MEETING

HELD ON SATURDAY, 11 MARCH 2023, AT TSAVO BALLROOM, KICC NAIROBI

ATTENDANCE

Board of Directors

1. Jotham Opiyo	- Chairperson
2. Philip Nzioki	- Vice Chairperson
3. Benard Ayieko	- Treasurer
4. Ronald Mugera	- Honorary Secretary
5. Evaline Ochieng	- Credit & Audit & Risk Management(ARM) Committee
6. Peter Kirimi	- Credit & Business Development & Education (BDE) Committee
7. Banice Mburu	- Credit & BDE Committee
8. Agunga Chris Duncan	- ARM & ICT Committee
9. Ken Njogu	- ICT & ARM Committee

Supervisory Committee

1. Frank Odhiambo	- Chairperson
2. Amos Nyakundi Atuya	- Secretary
3. Margaret Wanjiru	- Member

MEMBERS PRESENT

The meeting was attended by 1,612 members physically and 4,417 members virtually/online via Zoom Webinar.

IN ATTENDANCE

Ministry Officials

1. Hon. Simon K Chelugui	- Cabinet Secretary, Ministry of Co-operatives and Micro Small & Medium Enterprises Development
2. David Obonyo	- Commissioner of Co-operatives
3. Godfrey Akumali	- Chief Officer, Trade and Co-operatives, Nairobi County
4. Njoroge Mwangi	- Sub County Co-operatives officer, Dagoretti Subcounty

External Auditors:

FCPA Richard Njoroge	- Partner, PricewaterhouseCoopers.
Pauline Mwai	- Senior Manager - Assurance ,PricewaterhouseCoopers

PREAMBLE

The Chairperson, Mr.Jotham Opiyo, called the 38th Annual General Meeting to order at 9.07a.m. with a word of prayer from the Vice Chairman Phillip Nzioki.

MIN.1/AGM/2023: READING OF THE NOTICE AND ADOPTION OF THE AGENDA

The notice convening the 38th Annual General Meeting dated 26th February 2023 was read out by the Honorary Secretary and the following agenda items were adopted:

1. Adopt & Confirm Minutes of the 37th Annual General Meeting held on Saturday 12th March 2022 and matters arising therefrom.
2. Receive and adopt the Chairman's Report
3. Address by the Guest of Honour
4. Receive and adopt the Supervisory Committee Report
5. Receive and adopt the Audited Financial Statements for the year ended 31st December 2022
6. Present year 2024 Proposed Budget & Amendments to year 2023 Budget
7. Appoint the Auditors for the Year 2023.
8. Pass AGM Resolutions
9. Elections
10. Any Other Business
    a) Raising Funds For Risk Provision (1% in IFRS9) M/No. 013747.
    b) An independent electoral management committee to manage nominations and elections during AGM - M/No.004104.
    c) Amendment of the By-laws on BOARD membership eligibility requirements- Daniel Karenga M/No.004104.
    d) Resolution to hold AGMs not later than the last Saturday of February of each financial year- M/No.004104.
    e) Cap SACCO expenditures at 20% of the actual revenue realized in the previous year- M/No. NO.007650
    f) Undertake a forensic audit of our accounts every three years beginning financial year 2022 - M/NO.007650.
    g) Compliance to SASRA statutory requirements - M/NO.007650.

MIN 2/AGM/2023: ADOPTION AND CONFIRMATION OF PREVIOUS AGM MINUTES HELD ON 12TH MARCH 2022 & MATTERS ARISING THEREFROM

The minutes of the 37th Annual General Meeting held on 12th March 2022 were proposed by M/No. 016155 and seconded by M/NO 005594.

MIN 3/AGM/2023: CHAIRMAN REPORT

The Chairman, Mr. Jotham Opiyo presented his report to the membership and invited the Chief Guest Hon. Simon Chelugui to address the members.

The Chair in his report highlighted the general macro-economic outlook for the year 2022 and the outlook of the SACCO subsector. The Chair noted that Kimisitu had performed well in all its parameters in the financial year under review including active membership which grew by 15.5% to 10,492. Assets base by 11.9% to Kes.9.5billion ,turnover by 17.6% to Kes.1.16billion,loan book by 12.8% to Kes.6.9billion,and members deposits by 10.4% to Kes.7billion.He however highlighted the challenge of high loan portfolio at risk and urged the members to repay their loans diligently. He urged the members to participate in one member recruitment campaign and be good ambassadors of the SACCO. He requested members to approve the resolutions presented by the Board to support the SACCO operations and growth.

THE GUEST OF HONOUR ADDRESS

The Chief Guest Hon.Simon Chelugui, the Cabinet Secretary, Ministry of Co-operatives and Micro Small & Medium Enterprises Development was impressed by the journey, growth and the achievements realized by the SACCO in the 38 years of existence. He noted that most members are young people, signifying that the future of Co-operatives is bright.

He pointed out that Co-operative is a way of life with members pulling resources together and extending affordable credit. He emphasized that the SACCO movement is a key player in the realization of the vision 2030 and part of the Government bottom-up economic transformation Agenda. He reiterated his ministry's commitment to creating a conducive environment for the growth of the sector through the Economic Legal Governance framework. He also pointed out other policy matters that the Ministry was focusing on including facilitating the review of the Cooperative legislation that had been validated in the year 2022,amendment of the SACCO Societies Act to incorporate and operationalize the deposit guarantee fund to cushion members in case of unfortunate collapse of a SACCO ,operationalization of the Central Liquidity Fund to enable SACCOs participate in the national payment system and facilitate inter-SACCO lending.

The Cabinet Secretary presented recognition certificates to three top membership recruiters in the year 2022,M/NO.00703 ,M/NO.005964 and M/NO.019447.

MIN.4/AGM/2023: THE SUPERVISORY COMMITTEE REPORT

The supervisory Committee Chairman , Mr. Frank Odhiambo presented the Supervisory Committee report. The Adoption of the report was proposed by M/NO.003334 and seconded by M/N0.014060.

The Committee highlighted in their report the SACCO loan performance, debt collection, financial accounts & operating information, efficiency & effectiveness of SACCO operations, progress of the implementation of the strategic plan and SACCO ICT investments and performance.

The Committee noted the increase in number of members without loans which grew from 3,612 in year 2021 to 3,801 members in year 2022.The committee urged members to patronize the SACCO loan products and honour the repayments when they fall due. The Board and management develop products that meet the needs of all SACCO members. The committee commended the Board and management for the efforts that were put in place to ensure implementation of year 2021-2023 strategic plan.The committee noted that the SACCO is yet to comply with institutional capital ratio of 8% and recommended that strategies be put in place to maximize revenues to realize this ratio.

The committee further recommended the separation of the Kimisitu Insurance Agency and Kimisitu Foundation operations as separate legal entities.

The Committee noted failure to close the integration of the call centre with Customer Relationship Management system software and placing on hold the procurement of business whatsapp as some of the issues that affected customer service.

The committee recommended the need to have a comprehensive external systems audit to assess systems vulnerabilities to ensure security of members data and fund.

MIN. 5/AGM/2023: PRESENTATION OF AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31ST DECEMBER 2022

The auditor's report was presented by FCPA Richard Njoroge representing PriceWaterHouse coopers (PWC).

The audited financial statements for year ended 31st December 2022 report was proposed by M/NO.006250 and seconded by (M/NO:004648).

Matters arising from the Audited Financial Statements and the Supervisory Committee Report 2022

M/NO. 010373 inquired whether quarterly supervisory committee reports can be posted on the member portal for ease of access. The member also wanted to know the strategies the BOARD had put in place to attain institutional capital and pointed out the increased spending on staff training, staff bonus and BOARD honoraria and how the SACCO could curb loan default to reduce loan provisioning.

M/NO. 011291 pointed out that the costs of operations had been increasing in the last 5 years and wanted to know what measures the BOARD had put in place to ensure cost efficiency.

M/NO. 010424 pointed out that the SACCO financial operations were not separated from the Kimisitu Insurance Agency and that the agency costs and income had been included in the SACCO financials. He also wanted to understand why there had been challenges in ICT services despite the heavy investments.

M/NO. 012776 proposed a review of the BOARD honoraria and staff bonuses by subjecting the amounts to a percentage of the amounts that had been proposed. M/NO 007457 pointed out that the procurement of CRM system had not yielded any benefits yet and that the Supervisory committee come out clearly on whether the SACCO had challenges procuring a new system. He also wanted to know how much had been spent on the ICT systems.

M/NO.004930 was concerned that the Supervisory Committee pointed out that their mandate is limited, and advised the committee to highlight to the members what powers they needed from members to carry out their mandate.

M/NO. 001392 wanted to know why the external auditors revised the statutory ratios downwards.

M/NO. 0015931 requested the members not to approve the budget since it was opaque and not clear,and that BOARD could not spend beyond the budget without any clear explanation. Cyprian further suggested that the by-laws be changed to give the supervisory committee more powers and have qualified directors in the supervisory committee.

M/NO 002740 suggested that SACCO should print financial reports and have members go through them to understand the figures. He further pointed out that the BOARD should have gender balance and be comprised of mature people.

M/NO.007046 noted that the percentage of costs to revenue stood at 26.5% in year 2022 while previously it was at 23% and wanted to know the reason for the sudden increase even though she noted that it was below the cap of 27%.

M/NO 011384 questioned why the training costs were increasing, why the Board should be trained, and the staff bonus should be paid based on personal performance and not to all staff.

M/NO.010353 wanted to know why SACCO incur huge costs in marketing and members do not get value because marketing allocation should be utilized well to translate to growth.

M/NO. 017765 inquired why the SACCO pegged performance on revenue generated rather than dividends declared to members and that Honoraria and bonus should be based on member returns.

M/NO.001169 also reiterated that the members could only approve honoraria if members were satisfied with the returns.

M/NO.013747 pointed out that SASRA is the body that governs the SACCO sub sector operations and therefore anyone with a complaint should report it to SASRA to save members time instead of bringing issues to the AGM.She advised the members that attacking a director during the AGM does not help but rather focus should be on what brings value to the SACCO.

Responses to the supervisory committee and financial statements

On the quarterly supervisory committee reports uploaded on the portal, the committee informed the members that due to the sensitivity of their reports it was not advisable to have them as public documents, but the reports can be availed on request at the SACCO offices .

Kimisitu Insurance Agency is fully owned by SACCO, though at its formative stages and the amounts involved are not material. However, it was pointed out that the Agency acquired its own accounting system and its accounts had been separated from the SACCO accounts from January 2023.On the ICT investments, it was pointed out that the SACCO had made notable strides on ICT infrastructure and that the SACCO was working on optimization of all its existing systems.

It was clarified that that the SACCO had put a cost control limit of 27% to ensure cost efficiency. It was further confirmed that for the last 5 years the SACCO did not exceed the limit. In the financial year 2022, the total cost to revenue was highest over the last 5 years due to the change in accounting for honoraria and staff bonus as expenses rather than appropriation items.

On the Client Relationship Management (CRM) system, the committee indicated that the 1st, 2nd and 3rd vendors of CRM system did not deliver hence the 4th vendor was procured to deliver the job.

On training costs, the Board pointed out that the world is dynamic, and the business environment keeps on changing and require new skills and therefore trainings both for the Board and staff are necessary to grow the business of the SACCO.

Staff bonus was unlocked upon staff attaining revenue performance of over 85% ,the bonus is paid to individual staff on individual performance, overall organization performance and the level of responsibility. This is unlike 13th salary where all staff are paid irrespective of their individual performance.

On shoulder of Solace, the BOARD informed the members that a resolution on group benevolent cover was part of the resolution to be passed by the members during the AGM to ensure efficiency, reduction in costs due to economies of scale and better services from the underwriters.

Responses from External Auditors (PricewaterhouseCoopers)

The external auditor explained that year 2022 was their first year as Auditors for Kimisitu SACCO and therefore approached the audit assignment on a broader perspective and ensured that the financial reports complied with the International Financial Reporting Standard 9.

On the review of the reserves, the Auditors noted that the accounting standards provide guidance on what should be in reserves and therefore some items were reclassified and shown as liability because they did not meet the threshold.

MIN.6/AGM/2023: PROPOSED YEAR 2024 BUDGET AND AMENDMENTS TO YEAR 2023 BUDGET

The year 2024 budget and amendments to the year 2023 budget was presented by the Treasurer Bernard Ayieko. The budget was proposed by (MNO.008185) and seconded M/NO 011043.

Matters Arising from the Budget

M/NO.007696 reiterated that he was not convinced by the justification on the Board training expenses and budget. He intimated that the Board members are elected based on their qualifications and equipped, therefore, members should not elect incompetent leaders.

M/NO. 0001732 inquired on why the budget estimates had been adjusted yet the previous budget was not utilized. She questioned the allocation of Kes.5.7M and Kes.6.4M to the Corporate Social Responsibility budget in year 2023 and year 2024 respectively. She wanted to understand the importance of satellite offices yet the SACCO invested heavily on ICT.

M/NO. 006250 wanted to know why the Board had doubled the cost of strategic planning.

M/NO.018773 pointed out that the SACCO should consider online training for the Board to save on the training cost.

M/NO.001947 advised the SACCO to consider changing the strategy around member Education to save on costs by creating forums to minimize questions during the AGM.

M/NO. 002742 indicated that the Board training cost should be clearly broken down for the members to understand, Board members should be trained based on performance. He noted that the Co-operative events budget had been up while income to members only went up by Kes.200million.

M/NO. 015931 wanted to know the budgeting model the SACCO uses and the threshold for expenditure. He pointed out that the incremental budget should be broken down for the members and inquired why the SACCO is training staff, yet it hires qualified staff.

He advised members to reject the budget in totality, the Board and management to rework on the budget and call for a Special General Meeting to discuss the revised budgets.

M/NO 013747 pointed out that the SACCO do need a consultant to model IFRS 9 rather than it being done by her as a member or the Chief Executive Officer of the SACCO.

M/NO.017239 wanted to understand the reason behind the budget on debt collection recovery and yet we didn't realize results.

M/NO.005121 reminded the members that SACCO is members' business and not the Board's business. He requested the members to point out specific areas in the budget lines that needed to be adjusted for the budget to be approved. He advised members to be solution oriented and move forward instead of being hardliners.

M/NO.001169 stated that the SACCO had invested heavily on the ICT but still not getting value. She proposed that the SACCO should tap into the diaspora market, the Board to pay themselves a reasonable allowance, and finally advised the members to reject the budget.

M/NO.005713 proposed that a forensic audit be conducted on ICT.

Board Responses to the Budget

The business environment keep changing and therefore it's necessary to train board members to acquire new skills and carry out their mandate diligently.

The allocation of Kes.5.7m and Kes.6.4m was to support the establishment of Kimisitu Foundation.The foundation was projected to raise its own funds from the third year and would support the SACCO business, members, green initiatives and enhance the SACCO brand. It was also clarified that as much as the SACCO has invested in technology , a physical location/reference is necessary to support the business.

The clarified that the SACCO strategy 2021-2023 was coming an end and therefore the development of the new strategic plan would require more resources and engagements hence more costly.

The Board confirmed that the SACCO uses the incremental budget and activity-based budgeting approaches.

The SACCO had engaged an external audit firm RSM international to conduct the system and utilization audit to advise the Board whether the SACCO was getting value for money invested in ICT, the optimality in the utilization of the existing system and areas of cost reduction.

It was highlighted that the SACCO carries out mandatory systems audits and penetrations testing to identify any security gaps that need to be closed to protect members funds. The SACCO ICT costs are majorly on the recommended security software and maintenance which the SACCO must invest in to be secure.

MIN.7/AGM/2023: APPOINTMENT OF AUDITORS FOR YEAR 2023

The following firms were presented to members for consideration and appointment of one of them as the society's financial year 2023 auditors:

Audit Firm	Financial Proposal (Kshs)
Price water house Coopers LLP (PWC)	3,959,312
Ernst & Young LLP	4,115,100

a) PricewaterhouseCoopers LLP was proposed by M/NO.011291 and seconded by M/NO.015931

b) Ernest & Young did not get a proposer.

The members therefore re-appointed PricewaterhouseCoopers LLP as SACCO external auditors for the year 2023.

MIN 8/AGM/2023: RESOLUTIONS

The Board requested the members to approve the following resolutions:

1. Borrowing Powers

The Board sought approval to maintain Borrowing Powers at Kshs.600 million thus within 10% of the Society's assets as of 31st December 2023. (As provided in the Society's by-law no. 30).

The approval was proposed by M/NO.004205 and seconded by M/NO.005379.

2. Distribution of Surplus

The Board proposed to dispose the surplus for year 2022 as follows:

i. Payment of 15% dividends on members share capital as of 31st December 2022 which translating to Kes.85.5million.

ii. Transfer 5% of the net surplus after taxation to the general reserves which translates to Kes.16.7 million.

iii. Payment of honorarium to the BOARD and Supervisory Committee Kes.10.45 million

iv. Payment of staff Bonus of Kes.14.68million

Resolutions:

v. Payment of 15% dividends on members share capital as of 31st December 2022. The approval was proposed by M/NO.009333 and seconded by Mercy Nyakoa Isiaho, m/no.007678.

vi. Transfer 5% of the net surplus after taxation to the general reserves. The approval was proposed by M/NO.015299 and seconded by M/NO.010837.

vii. Payment of honorarium to the Board and Supervisory Committee Kshs.10.45 million

The members presented the following 3 proposals:

a) Pay honoraria of Kes.4.8m, proposed by M/NO. 001916 and seconded by M/NO.015220.

b) Pay honoraria of Kes.8,527,000, proposed by Susan Achieng Olang'o and seconded by M/NO.013777.

c) Pay honoraria of Kes.8,569,635, proposed by M/NO. 5121 and seconded by M/No.002552.

The Kes.4.8million proposal garnered 1,030 votes ,Kes.8,527,000 garnered 275 votes while Kes.8,569,635 garnered 163 votes.

The members therefore approved the honorarium to the Board and Supervisory committee of Kes.4.8million.

viii. Payment of staff Bonus of Kes.14.68million

The following 2 proposals were presented by the members:

a) Pay Kes.14.68million, proposed by M/NO.002560 and seconded by M/NO.14431.

b) Pay Kes.7.34million, proposed by M/No.002552 and seconded by M/NO.008968

The Kes.14.68m proposal garnered 561 votes while Kes.7.34million garnered 1,065 votes.

The members therefore approved the staff bonus payment of Kes.7.34m.

3. Payment of Interest on Members Deposits

The Board proposed payment of interest on members' deposits as of 31st December 2022 at a rate of 9%. This was proposed by M/No.002552 and seconded by M/No.009333.

4. Approval of Year 2024 budget and amendments to Year 2023 budget

The members did not approve the budget and advised the BOARD to review the budget and present them in a Special General Meeting for approval. This was proposed by M/NO.001732 and seconded by M/NO.000324.

5. Approval of Contribution of Kes.300 per member to Benevolent fund

The proposal to approve compulsory member contribution of Kes.300 toward the benevolent fund was proposed by M/NO.010837 and seconded by M/NO.001392.

However, the members did not approve of the resolution but proposed that it can be implemented on case by case basis.

6. Plough back of Kes.100 for every Kes.1000 earned as Interest on Deposits

Members did not approve the resolution. This decision was proposed by M/NO.018773 and seconded by M/NO.009628.

MIN.9/AGM/2023: ELECTION OF BOARD AND SUPERVISORY COMMITTEE MEMBERS

The elections were conducted by Njoroge Mwangi, the Sub County Cooperative Officer, Dagoreti.

The following Board members and Supervisory committee member were retiring:

a) Everlyne Ochieng - Board member

b) Philip Nzioki - Board Member

c) Ronald Mugera - Board Member

d) Frank Otieno Odhiambo - Supervisory Committee Member

Phillip Nzioki and Ronald Mugera presented themselves for re-election to the Board while Frank Otieno Odhiambo presented himself for the re-election to the Supervisory committee.

Everlyne Ochieng retired following the completion of her term limit in the BOARD and therefore did not present herself for re-election.

The Nomination Committee presented 20 candidates to the membership for the BOARD of directors' position and 4 candidates for the position of supervisory committee member.

The following votes were garnered by the respective candidates:

	Candidate Name	Proposer	Seconder	Votes
1	Philip Nzioki	Pauline Omaya	Caroline Chepkoech	344
2	Ronald Mugera	Dickens Okoth	Gilbert Ruto	320
3	Allan Ochieng	Linda ongoma	Peter Kimondo	193
4	Ayafor Kimani	Francis Njenga	Faith Gacheru	113
5	CPA. Beatrice Kibet	Anastacia Ruuri	Mary Nyawanda	276
6	Caren Nyanchera Oburu	Barbara wambui	Fredrick Obala	219
7	Duncun Barkebo	Fredrick Magwa	Dickens Okoth	216
8	Emma Marangu	Cyprian Shilaho	Daniel Nzomo	314
9	Esther Waruiru	Francis Kago	Dickens Okoth	362
10	Faith Munyasi	Damian wandera	Celestine Abila	477
11	Florence Oile	Cecily Nyaga	George Ochogo	316
12	Gabriel Bakhwinya	Immaculate lumasai	Rosalia Shitiavai	48
13	CPA Grace Apollonia Ochieng	Judith Libaisi	Norah Chepkoech	269
14	Hassan Ziro	Sally Cheptoo	Robert Macharia	194
15	Joseph Mulongo	Winfred mwangi	Abel Moranga	88
16	Judith Sembe	Eunice Khavai	John Nduati	172
17	Dr.Nicholas Leting	Kennedy Auka	Isaac Sila	175
18	Pauline Kwoba	Imelda Khavayi	David Okoto	214
19	Rosemary Mboya	Moses Kola	Emily Okumu	190
20	Silas Rintaugu Inoti	Esther Mudeitsi	Joyrose Karimi	66

SUPERVISORY COMMITTEE

1	Frank Ottieno	Nick Oyugi	John Mboya	575
2	CPA Eunice Moraa Momanyi	Jane Nduta	Halima Hali	601
3	Hyldrew Ameka	Stanslous Keya	Enock Matoke Makori	113
4	jairus ouma	Stephen Ndungu	Gilbert Rutto	233

The presiding officer declared the following duly elected to the BOARD having garnered the highest number of votes as follows:

a) Faith Nanyama Munyasi - 477 votes
b) Dr. Esther Waruiru Kago - 362 votes
c) Philip Nzioki - 344 votes

Supervisory Committee Results

The presiding officer declared CPA Eunice Moraa Momanyi as the supervisory committee member having garnered 601 votes.

MIN10/AGM/2023: ANY OTHER BUSINESS (A.O.B)

Due to the time constraint the registered other businesses agenda items were not discussed but were moved to the next general meeting.

MIN 11/AGM/2023: DISSOLUTION OF THE MEETING

There being no other business the meeting ended with a vote of thanks and prayers from Banice Mburu at 6.10p.m.

Signed

Chairperson

Honorary Secretary

KIMISITU SACCO LIMITED
STATEMENT OF THE CHAIRPERSON
ON THE 39TH ANNUAL GENERAL MEETING HELD ON 23RD MARCH 2024

PREAMBLE

On behalf of the Board of Directors, I am delighted to welcome you all to our 39th Annual General Meeting to present the annual report for the financial year ended 31st December 2023.I take this opportunity to appreciate the presence of our Chief Guest, The Co-operatives Ministry officials and our esteemed members.

A. THE MACRO ECONOMIC ENVIRONMENT

The Economic Outlook

The economic outlook for the period under review wasn't as pleasant as expected. The economic conditions have been tough but that should not dampen our spirits. Instead, we should be grateful to God for the opportunities we have to make our lives and those of our loved ones better. The projections by the International Monetary Fund (IMF) projected a growth estimate of 5.0% and 5.2% in 2023 and 2024 respectively. Local economy remains promising despite the high public debt and heavy tax burden to the citizens in the economy that continue to have an adverse effect to the disposable income of all and sundry. Revised Government estimates point to a strong real GDP of 5.6% and 5.7% for 2023 and 2024 respectively, supported by the services and agriculture sectors after recovery from drought. The revised estimates come after the country reported an average growth of 5.6% in the first three quarters of 2023, surpassing the 5.5% target mark projected by end of 2022. The Kenyan shilling continue gaining after the anticipated 24th June 2024, dollar demand was cleared by issuance of a new Eurobond that facilitated a buyback of USD 1.5Billion out of the 2.0Billion. This resulted in an oversupply of US dollar currency in the market and its subsequent depreciation since there's no need to keep holding the currency on its weak demand outlook.

The SACCO Sector

The Sacco Societies Regulatory Authority Supervision Annual Statutory Report 2022 on the operations and performance of regulated SACCO societies in Kenya indicates that there were a total of 359-regulated SACCOs, of which 176 are deposit-taking Saccos and 183 are non-withdrawable deposit taking SACCOs. The total membership among the regulated SACCOs increased by 7.02% to reach 6.42 million members in 2022 compared to a membership base of 5.99 million in 2021. The total assets increased by 10.31% to reach Kshs. 890.31 billion in 2022; while the total deposits mobilized grew by 9.84% to reach Kshs. 620.45 billion over the same period. The regulated Saccos issued loans and other credit advances amounting to Kshs. 680.35 billion in year 2022 representing an increase of 11.76% from year 2021. Kimisitu Sacco was a key contributor to these glossy statistics for the sector.

Comparatively, Kimisitu SACCO grew its membership by 25% to the sector growth rate of 7.02% in year 2022, total assets grew by 16% compared to the sector growth of 10.31%, total deposits grew by 14% against the sector year 2022 rate of 9.84%, loan book grew by 24% compared to the sector 11.76% in year 2022. In the year under review, Kimisitu Sacco's growth rate performance was above the sector's in all parameters except for portfolio at risk which was at 18% compared to the sector average of 8.34%. As our loan book grows in line with the targets in the new 2024-2028 new Strategic Plan, our focus must shift to slaying this dragon of non-performing loans. We have raft of measures that we hope will support as a remedy to some of the challenges we are going through.

B. FINANCIAL PERFORMANCE OVERVIEW

Parameter	2021	2022	Growth Rate	2023	Growth rate	Comments
Membership	9,058	10,492	15.8%	13,100	25%	Attributed to one-member campaign where all members were involved in the recruitment process.
Total assets	8.52B	9.54B	11.9%	11.07B	16%	Attributed to high demand and disbursement of loans.
Total Turnover	988M	1.16B	17.6%	1.48B	28%	Growth driven largely by income from loans at 85% with 15% from other operating income.
Loan Book	6.14B	6.92B	12.8%	8.58B	24%	Resulted from reviewed and revamped products during the year spurring growth.
Member Deposits	6.34B	7.0B	10.4%	7.99B	14%	The Members Deposits grew by Kshs. 984.4m as compared to Kshs.658m growth in the previous year. The deposits grew despite the loans default offsets in the year.
Portfolio at Risk	13.72%	10.43%	-3.29%	18%	8%	Total provision amounted to Kshs.279m in the year. Out of this amount Kshs.127m hit the profit & loss reducing the return to members and the balance Kshs.152m transferred to credit reserves affecting our plans to achieve the institutional capital ratio of 8%. With members repaying their loans as required, we will achieve 2-digit interest on deposits and comply with the institutional capital ratio.
Total Expenses/ Revenue	23.3%	26.5%	3.2%	23%	-3.5%	The reduction of expenses to revenue generated by 3.5% indicates the operational efficiency adopted by the SACCO.

Portfolio at Risk: The delinquent loans to gross loan portfolio increased from 10.43% in year 2022 to record 18 % in year 2023.This is a worrying trend for the board and management resulting from failure of members to honour their obligations as required. The management employed different recovery strategies including engaging the services of internal debt collection officers, additional external debt collectors, engaging defaulters and guarantors, constant reminders to members and rescheduling of loans.

As alluded to earlier, this is an area of focus for the board and management in year 2024.The board has presented a proposal to write off uncollectible bad loans which have been fully provided for over the years but still in our books, we plan outsource debt collections from substandard loans category unlike before where we have only engaged debt collectors on the doubtful and loss categories. The SACCO will also conduct in-depth review of all the loan products offered and the loan administration & recovery process. It is important to note that the non-performing loans directly affect the rate of interest on deposits and rob guarantors of their hard-earned savings.

It is important to note that the bad loans write-off does not mean that the defaulters are off the hook, we will still aggressively follow them up and have the amount received factored in our profits. On guarantor protection, it is worth to note that the Sacco made significant strides in indemnifying members who had suffered from guarantor recoveries. A total of Kshs 22,870,821.59 was refunded to the guarantors who had suffered in the hands of defaulters. We will intensify this initiative as a cure to guarantor apathy to boost loan uptake by members.

Core capital & Institutional Capital: According to SACCO Societies Act clause 29 and Legislative supplement No.27 clause 9, all regulated SACCOs are required to maintain core capital of not less than 10% of total assets, core capital of not less than 8% of total deposits and institutional capital of not less than 8% of total assets.

Kimisitu core capital to total assets amounted to 11.4% in year 2023(2022,11.2%) against the regulator minimum of 10%. The core capital to members deposits increased to 16% in year 2023, (2022,15.3%) against the regulation minimum of 8%.The SACCO has however not achieved the required minimum institutional capital of 8%.The institutional ratio which as at close of the financial year 2023 stagnated at 5.3%. The stagnation was facilitated by high non-performing loans provisioning leading to less surplus going into reserves. We have since engaged with the regulator and requested for a grace period of two years when we will have to fully comply, and this request was made on the premise that as a Sacco, we need to balance the return to members while also meet the regulatory requirements. The effect of this is, we may not be able to give competitive interest on deposits in the next two years in favor of the percentage that will be transferred to reserves. By maintaining the impressive performance and turning around the PAR, the Sacco will be able to achieve this without affecting the return to members.

The Society share capital grew by 20.6% to close at Kshs.687Million in the current year compared to Kshs.570Million (17.4%) in year 2022. According to the new strategic plan 2024-2028, we plan to increase and maintain dividends at 17.5% in the next 5 years. We urge members to invest more in share capital and take advantage of this competitive offer and recoup (payback period) their investments in 6 years.

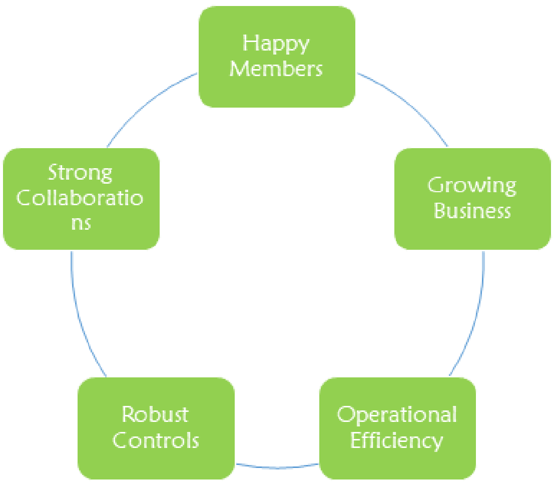
Governance: The supreme authority of the SACCO rests in the general meeting which is constituted of at least 200 members with its powers and duties as elaborated in our Bylaw's clause 44 and this include electing board of directors and supervisory committee. The board of directors' role is also highlighted in clause 51 and include establishing appropriate policies for guide the running of the SACCO. It's important to note that in the SGM of 2023, members expressed the need to have those seeking Sacco leadership to lead from the front by investing more in the Sacco, this issue was discussed and approved by the membership present at the SGM, however these by-laws were not registered by the commissioner's office and therefore the board based on their mandate reviewed the nomination policy to reflect the deliberations and spirit of the members during the special general meeting. The spirit of the discussions was to ensure that those mandated to oversee the management of the SACCO had adequate investments in the SACCO and demonstrated the best interests of the SACCO.

C. CORPORATE STRATEGY

Strategic Plan 2024 -2028

The Strategic Plan 2021-2023 came to an end on 31st December 2023 with over 90% achievements. The SACCO embarked on the development of a 5-year new Strategic Plan 2024 -2028 development by engaging members on the Sacco's key objectives in the next 5 years. Through this elaborate process, the Sacco has since developed a new 5-year Strategic Plan 2024 –2028.

The 2024-2028 Strategy Plan has a new vision, ***"Everyone who wants financial independence is joining Kimisitu"***, which speaks of our agenda of focusing on the member. In the next 5 years, the SACCO will focus on the following 5 key areas.



The prospective strategic targets for the new strategy include; Asset size of Kshs.29.16billion, Member deposits of Kshs.25.3billion, net loan book of Kshs.25.14billion,share capital of Kshs.1.7billion,membership of 42,768 and income of Kshs.3.6billion.The SACCO aspire to pay dividends of 17.5% and interest on deposits of 10% for the next 5 years. We also target to be among the top five of the tier 1 deposit taking SACCOs in Kenya from number twenty-four in year 2022.

Our core strategies that will help us realize our goals are membership growth, both in number, diversity, and quality; scaling up both physical and digital channels; expanding the products and services offerings; strong and effective strategic partnerships and collaborations; and building an agile organization. To realize the strategy, the SACCO will expand its operations by opening 3 full branches and 8 marketing/satellite offices over the next 5 years to widen its coverage and explore new markets; review its organization & management structure to ensure adequate staff & expertise are onboarded and also adopt delegates system of governance.

The members have a key role in supporting the board and management realize the strategy by providing adequate resources as provided for in the budgets, approving amendments to the Bylaws and strategy initiatives, patronizing the SACCO products, honoring loan obligations, participating in SACCO activities & engagements and becoming Kimisitu Brand ambassadors.

The Board has reviewed and aligned the year 2024 and year 2025 budget proposals to support the implementation of the new strategic plan 2024 -2028.We have a very ambitious but achievable plan with adequate resources and support from the members.

Forensic Audit 2017 -2022

The SACCO successfully conducted forensic audit for a period of 6 years, 2017-2022.The report is very progressive and set a good foundation for the future of the SACCO. The board and management have already developed an implementation plan matrix with clear timelines, action points and monitoring mechanisms. The board will share the implementation plan with the membership and subsequently update the members regularly on the milestones.

The Forensic audit scope focused on governance, financial management, procurement, Fosa and Credit Management, Information Communication Technology and Human Resources & Payroll Management. Below are some of the main highlights of the findings and proposed actions.

Members, allow me to highlight a few of the findings from the FA report. One was the issue was on board compensation, which in the previous years, was anchored on the Board Charter. As per the SASRA Guidance Notes on Corporate Governance revised June 2023, section 4.10.1 , a regulated sacco shall develop and implement a compensation policy for its members of the board and the supervisory committee which shall be subject to prior approval by the Authority before presentation to the general meeting of members for adoption. This we have since shared with you and its part of the documents for consideration in today's AGM. Also allow me to mention another issue from the FA findings on investment on ICT. Over the years, the Sacco has made a significant investment on ICT infrastructure. The FA advised the board to consider moving to the cloud as this may save the Sacco from huge investment in ICT. This is a matter of consideration and once the board finalize the plan and the modalities, members will be engaged to understand the impact.

Below is a summary of some of the issue that were highlighted in the FA report.

Area of Audit	Findings	Action taken/planned actions by the board
Governance	Lack of board compensation policy	The board has developed a compensation policy to be presented to members for approval
	Lack of Governance Audits	Comprehensive independent audits will be carried out every 2 years beginning year 2024.
	Cooling off period for those who have served in the Supervisory committee and having interest in serving in the board and vice versa.	The By-Laws has been amended to include the cooling off period of 5 years as provided by the Regulator, SASRA. This has been presented to the members for approval.
	The Sacco do not have corporate secretarial governance and legal service officer	The SACCO hired a senior legal officer who reported in January 2024to carry out the SACCO legal duties.
	Board Charter and committee charters to be reviewed and to develop the CSR policy.	The review together with all the SACCO policies will begin in April 2024.
Financial Management	Gaps in preparation of consolidated financial statements.	Kimisitu Insurance Agency prepares its own financial accounts and has its own auditors. Currently the amount in KIA is not material and therefore consolidation with the SACCO accounts to be affected in year 2025 financials.
	Inadequate ERP systems controls.	ERP system upgrade to begin in April after budget approval by the members.
All areas of Audit	Policy & procedure gaps.	The SACCO to start reviewing all its policies from the month April 2024.
Credit & Fosa Management	Gaps in M-kimisitu loan product, its guarantorship and system configuration.	The board and management will be conducting comprehensive products review in the 2nd quarter.
	Inconsistent loan write-off process.	The bad loans uncollectible loans have been presented to the members for approval.
ICT	Lack of documented business cases for all significant ICT projects.	All the projects business cases will be documented to include goals and objectives of project, benefits of the project, approach and methodology, potential risks and impact, financial implications and adoption and capabilities.
	High spending on ICT licenses	The management is working on the options of moving on-premises workload to cloud to optimize overall spend on ICT

Area of Audit	Findings	Action taken/planned actions by the board
Procurement	Gaps in system configurations & controls, purchase order management,	The system upgrade which will begin in April will be properly configured to manage these gaps.
	Gaps in contract management	The SACCO has been using external advocates to review the contracts. The internal Senior legal officer has commenced review of all Sacco contracts

ISO 9001:2015 Re-Certification

The SACCO ISO 9001:2025 audit after 3 years of certification was successful, a testament that we have conformed with the standards and consistently employed quality management system in the business operations. This means that Kimisitu will remain ISO certified for the next 3 years before another major re-certification audit is conducted.

Kimisitu Foundation

In 2021, members gave the board a green light to register Kimisitu foundation. The purpose of having foundation was focused on improving corporate social responsibility (CSR) of the Sacco and improve the brand visibility through implementation of programs that affect positively the lives of Kimisitu Sacco members and subsequently the community. During the year 2023, the SACCO successfully onboarded 4 qualified independent directors to steer Kimisitu Foundation into the future focusing on building the SACCO brand and supporting climate change, Agribusiness, financial literacy, green financing, and other corporate responsibility initiatives. The Foundation has 7 directors comprising of 4 independent directors ,2 directors from the SACCO Board and Kimisitu Sacco Chief Executive Officer. In the second quarter of this year, we will be share with you, the foundation programs for the year and as well invite you to the Foundation launch event. Join me in welcoming the foundation directors; Prof. Alex Awiti, Dr. Anthony Mveyange. Margaret Mliwa, Ms. Sharon Karugu, Mr. Peter Kirimi, Ms. Banice Mbuki Mburu and Mr. Lwanga Mbeche.

D. ACHIEVEMENTS

Some of the notable achievements in the financial year were:

- The SACCO emerged the winner of ICT award, CIO100 Goldmark in the SACCO category in Africa.
- The SACCO became the 1st Runners-up in the Financial Reporting – Fire awards, SACCO category.
- The SACCO won 3 trophies during the Ushirika Awards in the following categories: Deposits Management, Technology Optimization and Risk Management.
- Recorded the highest growth in the last 5 years in all the financial parameters including revenues, loan book & disbursements, membership, members deposits and share capital.
- Development and completion of new strategic plan 2024- 2028

Departed Members

In the year 2023, we sadly mourn the loss of eleven cherished members: Cosmas Musya Wambua, Elizabeth Wairimu Njuguna, Felix Isendi Imbova, Gilbert Kivunzyo Kasyima, Jackline Khayeche Burudi, Judith Jepkemboi Maiyo, Kennedy Misigo Luginu, Martin Mbalu, Mary Wambui Muchina, Melchizedeck Mboya Ogola, and Robert Kagunza Ummbahira. I kindly request that we observe a moment of silence in their honor.

To assist their families during this difficult time, we disbursed Kshs.1,100,000 to cover funeral expenses.

It is worth noting that our members also have access to the Shoulder of Solace (SOS) ,a last expense product provided by Kimisitu Insurance Agency, which offers support to the bereaved families.

CONCLUSION

I would like to thank all our guests, all Ministry & County officials, Board of Directors, the management, staff, entire membership and all our stakeholders for making year 2023 a success.

God bless you and the Kimisitu family.

Mr. Chris Duncan Agunga
Chairman

KIMISITU SACCO LIMITED
CHIEF EXECUTIVE OFFICER'S STATEMENT

To our Chief Guest, the Commissioner of Co-operatives, Mr. David Obonyo, Ministry and County Officials, invited guests, our esteemed members, it is my pleasure to warmly welcome you to our 39th Annual General meeting.

A. FINANCIAL PERFORMANCE IN YEAR 2023 AND YEAR 2024 PROJECTIONS.

- The SACCO grew in all the key financial parameters, the total assets, loan book, membership, members' deposits and the turnover.
- Our annual turnover in year 2023 grew by 28% to Kshs.1.486billion from Kshs. 1.162billion million in year 2022. We envision to grow our income by 28% in the year 2024 to record Kshs. 1.9billion.
- The loan book grew by 24% recording total loan book of Kshs. 8.5 billion in the year 2023 from Kshs.7 billion in year 2022. The loan book is anticipated to grow by 27% to record loan book of Kshs. 10.8billion in year 2024.
- The active membership grew by 25% closing at 13,100 members in the year 2023 from 10,492 members in year 2022. Our plan is to grow the active membership to 16,571 members translating to 26%.
- The members' deposits also grew by 14% closing at Kshs. 7.99 billion from Kes 7 billion in the previous year. The SACCO project deposit growth to Ksh.10.14billion in year 2024,27%.
- The total assets of the SACCO recorded a growth of 16% to close at Kshs. 11.07 billion compared to Kshs. 9.5billion in year 2022.
- The SACCO has achieved all the regulatory compliance ratios except institutional capital which stagnated at 5.3% against the regulatory requirement of 8%.
- The SACCO has maintained the dividends rate of 15% on the share capital and grown the interest on deposits to 9.2% in 2023 compared to 9% in year 2022.

B. MANAGEMENT STRATEGIC FOCUS FOR YEAR 2024

- **Happy Member**

The management is looking into improving the members multichannels through integrating and standardizing offerings on all channels for excellent member experience, scaling up investments in omni-channels sacco banking, marketing, seamless member onboarding and omnichannel lending. The management will scale up investments in member satisfaction and retention programs, reduce member information asymmetry by redesigning communication frameworks, review of the customer charter, building staff capacity in communications and implementing a robust member relationship management system.

- **Growing Business**

The management is focusing on growing business in all the performance parameters through revamping and developing new products, implementing a robust new member onboarding system, enhanced investment in new distribution channels, setting one branch and marketing offices in the year 2024, expanding the markets beyond the current market segments, enhancing scalability of all systems and processes and innovations.

- **Operational Efficiency**

The management will continue to cut costs without compromising on quality and deploy technology to achieve efficiency, strategic outsourcing and vendor management to ensure value for money and prioritizing resources to strategic initiatives. The management will be focusing on automating all core business processes, investing in a new/upgraded ERP, enhancing capacity for staff to 0ptimize the use of automated systems for provision of services. We will also promote the culture of creativity and innovation for enhanced productivity.

- **Robust Controls**

The management will continue to maintain strong controls through review all the ICT systems security policies, strengthening the oversight over management of ICT investments, conduct regular ICT systems security audits and testing and provide adequate continuous training of staff on all digital and online systems, new trends in cyber-attacks and data privacy. The management will also focus on strong risk management frameworks especially on credit management and debt collection system. We will be enhancing data driven decision making by onboarding an experienced business analyst to scale up and optimize returns from investments in data analytics.

- **Strong Collaborations and partnerships**

To enhance our brand visibility, introduce new streams of revenues, new channels and enhance risk management we will foster strong collaborations and partnerships with various partners including telcos, commercial banks, diaspora associations, property developers, motor vehicle and spare parts dealers, farm input manufacturers and suppliers, umbrella bodies, professional associations, outsourced systems providers, Department of Criminal investigations, Ethics and Anti-corruption Commission etc.

- **Credit Risk**

The loans default is a matter that the management will put more focus on in year 2024 given the current growth in non-performing loans to 18% from 10.43% in the previous year. Members have an obligation to pay all their loans in time and regularly. The loan provisioning adversely affected our bottom lines despite the good performance in the year 2023 by Kshs. 152million.The management will review the loaning appraisal system, the products and costs of the product given the level of risk created by non-performing loans.

- **Institutional Capital**

Our institutional capital stagnated at 5.3% against the requirement of 8%.We plan to ensure that we reach the bare minimum of 8% in year 2025.We therefore want to inform members that this strategy will negatively affect the interest on deposits in the short run after which the rates will be competitive in the subsequent years.

C. FUTURE OUTLOOK

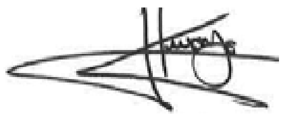
With the implementation of the new strategic plan 2024-2028, the SACCO is poised to a great and sustainable future. The SACCO is looking at realizing asset base of over Kshs.29billion, a membership of over 42,000 and being among the top 5 SACCOs in terms of the asset base by the year 2028.

D. ACKNOWLEDGEMENT

The Board and management greatly appreciates the massive contribution and resilience of our members in making year 2023 a success despite the tough economic period.

Special appreciation to all the Ministry and County officials, SASRA and all our stakeholders for their unwavering support in the year 2023.

Finally, I want to thank the members, Board of Directors, the management, and staff for making year 2023 a great year.



Lwanga Mbeche

Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

Our good governance practices aim to ensure that the SACCO's management model and the decisions of the Board of Directors and its Committees are geared towards preserving the interests of our members and ensuring the SACCO's sustainability.

Our corporate governance system is constantly reviewed and improved, incorporating the main recommendations of various audits and the latest trends, as well as regulatory developments in this sector. In this regard, Kimisitu Sacco maintains an active dialogue on environmental, social and governance (ESG) matters with its stakeholders, to learn their first-hand opinion and position on these matters and to explain the practices. In 2023, as part of this dialogue with our members, Kimisitu Sacco developed a strategic plan that will run for the next five years starting in 2024 to 2028. This strategy has addressed the environmental social impact as well as dealt with the SACCO's sustainability with respect to this and other issues.

The Board of Directors and its Committees continued to work on overseeing the most important issues for the SACCO and making decisions on relevant matters, such as monitoring the commitments of the Strategic Plan.

KIMISITU SACCO PROFILE, STRUCTURE AND VALUES

Vision

Everyone who wants financial independence is joining Kimisitu.

Mission

We are committed to championing the financial independence of all our members.

Core Values

- Customer focus
- Agile
- Synergy
- Happiness

AUTHORITY OF THE SACCO

The supreme authority of Kimisitu Sacco is vested in the members through the Annual General Meeting where they elect the board of directors and the supervisory committee. These elected directors are accountable to the members during stakeholders and annual general meetings.

EFFECTIVE COMMITMENT TO OUR MEMBERS

The SACCO has ensured active participation by the members through;

- General meetings accessible to all members.
- High participation through remote means.
- Possibility of attending and exercising rights through telematic means.
- Streaming of the General members Meeting.
- Continuous member education

BOARD OF DIRECTORS

Kimisitu SACCO Board of directors has the overall responsibility of approving and overseeing the strategic plan and formulating policies in accordance with the Co-operatives Societies Act, the Sacco's Society Act and the by-laws of the society.

The board determines Sacco's strategic direction, regularly engaging the management to understand the factors that are required to be considered to ensure sustainable strategic objectives. Decisions, deliberations and actions are taken with cognizance of Sacco's ethical values and principles. The board is ultimately responsible to ensure that the Sacco's mission, vision and objectives are ethically sound and customer centric.

On Bi-annual basis management formally presents the short, medium and long-term strategy to the board, which challenges it constructively in respect of its assumptions, time frames and objectives. The board formally reviews and approves the strategy, plans and budget for the ensuing year.

On 11th March 2023, Mr. Phillip Mutisya Nzioki, Dr. Esther Waruiru Kago and Ms. Faith Nanyama Munyasi were elected to the board of Kimisitu Sacco in accordance with section 51 of the Sacco by-laws while Ms. Eunice Moraa Momanyi was elected to the supervisory committee.

Subsequently, the board committees were reconstituted in accordance with the Sacco's Board Charter Section 69 of the Sacco by laws.

Ms. Evaline Akinyi Ochieng and Mr. Ronald Mujete Mugera retired from the board.

Board Appointment

Election to the board is through a nomination process conducted by the nomination committee leading to the general meeting where democratic elections are held to determine new board members.

The nomination committee is appointed by the board on an annual basis and comprises of five members. The committee comprise of one member from the Certified Public Accountants body (ICPAK), one member from the Institute of Certified Secretaries (ICS), one member from the Law Society of Kenya (LSK) and one member from the commissioner of co-operatives office and the SACCO CEO as Ex-officio.

Effective Board of Directors:

All Kimisitu SACCO Board of Directors are independent Directors, this includes the supervisory Committee. To ensure the effectiveness of the Board, the Directors have a balanced, qualified and diverse composition with separate and complementary roles of Chairman, Chief Executive Officer and management staff. The SACCO has also integrated best practices of good governance in its internal regulations.

Board Committees

Kimisitu Board has established five (5) sub-committees to which it has delegated some of its responsibilities. The committees are normally constituted within seven (7) days after the elections at the annual general meeting: These committees are;

a) Finance & Administration Committee
b) Credit Committee
c) Business Development & Education Committee
d) ICT Committee
e) Audit & Risk Management Committee

Board Members Attendance

DIRECTORS	COMMITTEE MEMBERSHIP / ATTENDANCE	JOINT BOARD	BOARD	FINAD	BDE	CRED-IT	ARM	ICT
	Membership	✓	✓	✓	N/A	N/A	✓	✓
CHRIS DUNCAN AGUNGA	Attendance	6/6	7/7	3/12	N/A	N/A	2/12	2/12
	Membership	✓	✓	✓	✓	✓	N/A	N/A
PETER KIRIMI	Attendance	6/6	7/7	9/12	12/12	3/12	-	-
	Membership	✓	✓	✓	N/A	N/A	✓	✓
KEN NJOGU	Attendance	6/6	7/7	9/12	-	-	2/12	2/12
	Membership	✓	✓	✓	✓	✓	N/A	✓
BANICE MBURU	Attendance	6/6	7/7	9/12	3/12	3/12	-	9/12

DIRECTORS	COMMITTEE MEMBERSHIP / ATTENDANCE	JOINT BOARD	BOARD	FINAD	BDE	CRED-IT	ARM	ICT
	Membership	✓	✓	✓	N/A	✓	✓	N/A
PHILIP NZIOKI	Attendance	6/6	7/7	1/12	3/12	9/12	9/12	-
	Membership	✓	✓	✓	✓	✓	N/A	N/A
BENARD AYIEKO	Attendance	6/6	7/7	1/12	9/12	9/12	-	-
	Membership	✓	✓	N/A	N/A	N/A	✓	✓
JOTHAM OPIYO	Attendance	6/6	7/7	-	-	-	9/12	9/12
	Membership	✓	✓	N/A	N/A	✓	N/A	✓
FAITH MUNYASI	Attendance	5/6	6/7	-	-	9/12	-	9/12
	Membership	✓	✓	N/A	✓	N/A	✓	N/A
DR. ESTHER KAGO	Attendance	5/6	6/7	-	9/12	-	9/12	-
	Membership	✓	✓	N/A	N/A	✓	✓	N/A
EVALINE AKINYI OCHIENG	Attendance	3/6	2/7	-	-	2/12	2/12	-
	Membership	✓	✓	✓	N/A	✓	N/A	✓
RONALD MUGERA	Attendance	3/6	2/7	1/12	-	-	-	1/12

Supervisory Board Committee Attendance

DIRECTORS	COMMITTEE MEMBERSHIP / ATTENDANCE	JOINT BOARD	SUPERVISORY
	Membership	✓	✓
MARGARET WANJIRU	Attendance	6/6	26/26
	Membership	✓	✓
AMOS ATUYA	Attendance	6/6	26/26
	Membership	✓	✓
EUNICE MOMANYI	Attendance	5/6	24/26
	Membership	✓	✓
FRANK OTTIENO	Attendance	2/6	2/26

SENIOR MANAGEMENT

All the authority of the board that is conferred on management is delegated through the CEO. The CEO and the management are responsible for the implementation and execution of the strategy and the ongoing operation of the SACCO business.

CODE OF ETHICS

The Sacco has a code of ethics that governs the relationship within and without the Sacco. The code highlights the expected standards to be adhered to.

GOING CONCERN

The board of directors confirms that the financial statements are prepared on a going concern basis and is satisfied that the SACCO has adequate resources to continue in business for the foreseeable future. In making this assessment, the directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources.

RISK GOVERNANCE

Kimisitu Sacco aims to achieve an appropriate balance between risk and opportunities, recognizing that certain risks need to be taken to achieve sustainable growth and returns while at the same time protecting the Sacco and its stakeholders against avoidable risks. The board is responsible for the oversight of the risk management process and has delegated the responsibility to the audit and risk committee.

The SACCO has an effective risk framework which is compliant with the requirements of ISO 9001:2015. The SACCO received ISO 9001:2015 recertification in August 2023, confirming our commitment to continuous improvement in offering exemplary services to our stakeholders. The board sets out the various risks that should be considered as part of the risk identification process. These potential risks are evaluated & updated annually in the risk register to ensure all relevant industry issues are considered. The SACCO uses a broad limit of materiality of 5% of loan loss provision as the indicator of the SACCO's capacity to tolerate a potential loss. A disciplined approach is followed in evaluating risks and developing appropriate strategies to mitigate and manage risk. The SACCO adopts a conservative risk attitude which the directors believe is appropriate given the nature of the business.

COMPLIANCE GOVERNANCE

The board is responsible for the governance of compliance with applicable laws and with adopted, non-binding rules, codes and standards. It sets the direction for how compliance should be approached and addressed in the organization. The board approves policy that articulates and gives effect to its direction on compliance, and that identifies which non-binding rules, codes and standards the organization has adopted. The board has delegated responsibility for implementation and execution of effective compliance management to the management, which responsibility is primarily discharged by the Internal audit, risk and compliance Manager under oversight of the CEO.

The SACCO is in the process of establishing an independent risk and compliance unit that will oversee the running of the risk management process.

RELATIONSHIP WITH STAKEHOLDERS

The Board is committed to ensuring that the regulators and stakeholders are provided with full and timely information about the SACCO's performance. In this regard therefore, the Board issues the Sacco magazine quarterly through the members web portal.

The AGM provides a useful opportunity for members' engagement and for the board to expound the Sacco's progress and respond to questions from the members.

CONCLUSION

The board is satisfied with the way that the management has adopted and implemented the strategy 2021-2023 achieving 94% of the targeted revenue while maintaining an effective control, legitimacy, ethical culture with a customer centric view.

Governance processes, policies and procedures are regularly reviewed to align with legislative and regulatory changes.

CORPORATE SOCIAL RESPONSIBILITY REPORT

In the year 2023, our focus was to be steadfast on upholding our core values of social responsibility and community impact. We understand the integral role we play not only in the financial lives of our members but also in the broader social fabric of the communities we serve. With this understanding, we remained dedicated to leveraging our resources and expertise to create positive change and contribute to the sustainable development of society.

As we navigated the opportunities and challenges brought forward with, we remained committed to fostering meaningful partnerships, embracing innovative solutions, and prioritizing environmental stewardship in all our endeavors. Together with our stakeholders, we built more resilient, inclusive, and sustainable future for our members, their families and generations to come.

With a renewed sense of purpose and determination, we look forward to the journey ahead and the positive impact we can collectively achieve in the year 2024 and beyond.

Our forward-thinking approach involves leveraging artificial intelligence and predictive analytics to offer tailored financial solutions, seamless digital experiences, and proactive support. By harnessing the power of technology and human-centric design, we aim to empower our members with greater convenience, accessibility, and financial well-being in the years ahead.

OUR CUSTOMERS

The Sacco focused on member education in year 2023. Physical education sessions were conducted in below areas:

a) Nairobi metropolitan
b) Coastal Towns of Malindi, Watamu, Mombasa, Kwale and Mazeras.
c) Western region; Bungoma, Kakamega, Busia, Kisumu, Kitale, Vihiga and Homabay
d) Northern Kenya; Kakuma, Dadaab, Turkana and Lokichogio

The Sacco also conducted an inaugural Kimisitu Sacco Open Day on 14th October 2023 dubbed "Buy Kimisitu Build Kimisitu" The objective of the event was to:

- To bring members in business together and share opportunities with other members.
- Sacco branding and visibility
- Networking of members

During the event, there was an attendance of 23 exhibitors, 61 member participants and 13 visitors/potential members.

In shaping the future of Sacco's direction, the board and management finalized the new strategic plan 2024-2028. The strategic plan meticulously analyzes our strengths, opportunities, and potential threats. Our robust lending processes and strong liquidity position are the cornerstones of our effective customer services, ensuring that our members receive the financial support they need, we offered promotional products. We take pride in our trusted brand within the NGO sector, leveraging member loyalty to develop referral programs that welcome new members into our community.

Our significant investment in technology, including our core banking system, digital channels, and mobile apps, underpins our commitment to efficient service delivery. We are seizing the opportunity to expand our reach through subsidiaries, promoting cross-selling initiatives to enhance member benefits. Additionally, our ISO 9001:2015 recertification done in October 2023 elevates our service standards, reinforcing our reputation for excellence.

Our dedication to technology-driven innovation is evident in our investments in a state-of-the-art core banking system, digital channels, mobile apps, and automated processes. These technological advancements are more than enhancements; they are strategic imperatives that enable us to deliver seamless, efficient, and member-centric services.

With the focus on sustainability and environmental cautiousness, the Sacco was able to push all loan applications to our Kimisitu Money Application, members are now able to apply for all loans through the App regardless of the loan amounts, up-to a tune of Kshs.50,000,000/=. Members can apply for self-guaranteed loans and access them instantly without the need of reaching out to the Sacco officials. For guaranteed loans, members can now request guarantorship through the App and once the loan is guaranteed, they submit via the App. This innovation has not only made it easy for the members to transact and access Sacco services from all over the globe but also managed to bug us the prestigious OnePlus Awards at the CIO Awards as the Best digitized Sacco in Africa.

The loans turn around time has now been significantly improved from one day to between three hours to eight hours, this in turn has made our members, “Happy members”.

OUR PEOPLE

As the business environment and workforce continues to evolve, Kimisitu Sacco Ltd ‘the Sacco’ has remained adaptable and proactive in implementing best practices to drive sustainable growth and staff satisfaction to deliver the strategic objectives 2021 – 2023. We embraced agile recruitment strategy, technological advancement, prioritized employee safety, wellbeing, and health, and promoted diversity equity and inclusion to remain resilient in the face of workforce dynamics and economic challenges that impacted our turnover rate to 27% in the year 2023. We continue to foster creativity and innovation that got the Sacco a recognition award as the best digitized Sacco in the year 2023. We endeavor to remain competitive in the industry and invest in continuous development of our staff to enhance staff capabilities and continuous learning culture. Our performance management is redefined towards continuous feedback, goal setting, and regular check-ins to foster a culture of collaboration, improvement and ensure staff feel recognized and supported to deliver the strategy.

MARKETING, ADVERTISEMENT AND PRODUCTS

The marketing and Business Development team has implemented strategies to ensure that communication with our members is ethical and personalized. When it comes to financial matters, accurate data is provided by liaising with the credit, FOSA, and finance departments. All information about our Sacco and its products is available on our website, with personalized details accessible to members for viewing, reviewing, and querying through the members’ portal.

The Sacco management has established a product review and development committee to oversee the evaluation of our products. According to our credit policy, product features and interest rates cannot be increased, especially once a member has already availed of a product. We offer a variety of products tailored to suit every member, all meeting the standards of ‘affordable loans.’

The marketing department keeps members informed about any product changes or promotions through various communication channels. Our marketing campaigns are designed to ensure that members receive accurate product information. During the loan application process, members can review all product details before finalizing their loan agreements. This process has been implemented online as well, considering that 80% of our loan applications are done digitally, leading to a more secure environment.

In the financial year 2023, the committee launched two product promotions and product reviews to assist members facing financial constraints. Several initiatives were undertaken to provide affordable credit to different membership classes, offering relief during challenging economic times.

Below are the highlights of the product promotions and reviews:

- Reduced personal loan interest from 18% p.a. to 12% p.a. on a reducing balance.
- Lowered interest rate for mobile money facility (M-Kimisitu Loan) from 7% p.m. to 5% p.m. on a reducing balance.
- Decreased interest rate for chama loans from 14.4% p.m. to 12% p.m. on a reducing balance.
- Increased the multiplier and tenure for Premier loans to TIMES 6 and 96 months respectively.
- Extended the duration of the Development loan to 84 months with a reduced interest rate of 1% p.m. allowing members to pay off bank loans.
- Members could use the Premier Loan to consolidate their Sacco loans, and even pay off loans from other Saccos or banks, creating a more manageable loan package at the Sacco.
- Reviewed collateral security matrix from the use of forced sale value to the use of market value.

These initiatives resulted in members borrowing a total of Kes.6.9Billion, leading to income growth of 28%. This signifies our commitment to providing customer-focused solutions, resulting in increased loyalty from our satisfied members.

THE COMMUNITY

As part of its CSR commitment, the Sacco donated 1,000 avocado seedlings to persons living with disabilities in collaboration with Ahadi Kenya Trust as part of our 2023 CSR activities. The Sacco partnered with Ahadi Kenya Trust to donate 1000 avocado seedlings.

The Sacco together with Ahadi Kenya made these donations on 2nd December 2023, which coincided with the International Day for Persons Living with Disabilities. The donations were made to to persons living with disabilities in Dagoretti constituency in conjunction with the in Dagoretti constituency MP, John Kiarie.

Ahadi Kenya Trust identified needy persons living with disabilities in Dagoretti constituency and has developed a robust programme of assisting these persons to plant the avocado seedlings. The goal of this exercise is to empower these persons economically and socially by ensuring that they have sustainable economic activities, they will be able to start harvesting the avocados for commercial purposes after two years.

Kimisitu and Ahadi Kenya Trust are going to monitor and ensure that the beneficiaries have been followed up and impact of the avocados realized in their lives.

We have also identified the leaders of the PWD's in the area and these leaders are going to be enlightened on the goals of the cause to enable them support the communities in implementation of this important cause.

The Sacco is also in the process of developing a partnership with the office of the MP Dagoretti constituency for a long-term partnership of creating green zones besides the streets of every tarmacked roads in the constituency.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2023

The directors submit their annual report together with the audited financial statements of Kimisitu Sacco Society Limited (the "Sacco") or (the "Society") for the year ended 31 December 2023.

INCORPORATION

Kimisitu Sacco Society Limited (the "Society") is incorporated in Kenya under the Co-operative Societies Act, Cap 490 and licensed under the Sacco Societies Act No. 14 of 2008, and is domiciled in Kenya.

PRINCIPAL ACTIVITY

The principal activity of the Society continues to be mobilizing members' savings and provision of loans to its members.

RESULTS

	2023 Shs'000	2022 Shs'000
Interest on non-withdrawable members' deposits	646,000	597,751
Surplus	369,657	177,206
Income tax expense	(17,743)	(8,987)
Net surplus for the year	351,914	168,219
Other comprehensive income/(loss) net of tax	20,699	(95)
Total comprehensive income net of tax	372,613	168,124

DIVIDEND AND INTEREST ON MEMBERS' DEPOSITS

The Board of Directors recommends payment of a first and final dividend of 15% per share value (2022: 15%) based on the weighted average shares held during the year. The Directors also recommend interest on members' deposit of 9.2% (2022: 9%) based on the weighted average deposit balances during the year.

DIRECTORS

The Directors who served during the year up to the date of this report are set out on page 1.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP was appointed as auditor of the Society during the year accordance with the provisions of Sacco Societies Act. No 14 of 2008.

By order of the Board

Honorary Secretary
Banice Mbuki Mburu

27th February 2024

STATISTICAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 Number	2022 Number	2021 Number	2020 Number	2019 Number
Number of active members	13,100	10,492	9,058	8,437	7,629
Non-active members	2,762	2,953	2,932	2,616	2,790
Defaulters	1,554	1,478	1,412	1,163	875
Ex-members	6,172	5,925	5,295	5,238	4,856
Deceased	146	129	116	92	81
Total	**23,734**	**20,977**	**18,813**	**17,546**	**16,231**
Number of employees					
Male	30	33	27	24	24
Female	23	21	20	18	15
Total Number of employees	**53**	**54**	**47**	**42**	**39**

	2023 Shs'000	2022 Shs'000	2021 Shs'000	2020 Shs'000	2019 Shs'000
Financial Summary					
Share capital	687,232	570,035	485,742	432,735	334,224
Members' deposits	7,990,739	7,006,250	6,347,686	5,916,911	5,352,622
Statutory reserve fund	270,988	202,727	169,083	134,048	99,145
Revenue reserves	207,192	203,354	136,245	116,411	161,241
Equity investments	18,300	21,010	19,106	16,410	18,956
Investment in government securities	231,389	623,000	258,000	-	-
Assets	11,070,983	9,542,671	8,527,018	7,664,249	6,907,372
Loans to members	8,582,636	6,927,368	6,142,830	5,535,136	5,210,869
Total income	1,486,262	1,162,675	988,765	886,084	798,199
Liabilities	9,305,126	8,181,119	7,354,780	6,580,573	6,066,843
Surplus before income tax	369,657	177,206	189,796	190,247	116,084

The statistical data above is extracted from the statement of profit or loss and other comprehensive income and statement of financial position set out on pages 52 and 53, respectively.

STATISTICAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2023

	Statutory Require-ment	2023	2022	2021	2020	2019
Key Ratios	**%**	**%**	**%**	**%**	**%**	**%**
Capital Adequacy Ratios						
Core capital/total assets	10%**	11.4%	11.2%	10.3%	10.8%	10%
Core capital/members deposits	8%**	16%	15.3%	13.9%	13.9%	13%
Institutional capital/total assets	8%**	5.3%	5.3%	4.6%	5.1%	5%
Liquidity ratios						
Liquid assets /total deposit	15%**	23%	18%	25%	29%	23%
Operational efficiency ratios						
Total expenses/total revenue		23%	26.5%	23.3%	21%	23%
Interest on members deposits /total revenue		43%	54.1%	54.4%	51%	57%
Total delinquency loans /gross loan portfolio		18%	10.43%	13.72%	12.85%	2.81%
Governance expenses /revenue		1%	2.5%	1.5%	1.3%	2%
Staff expenses /revenue		8%	12.0%	11.3%	10%	11%
Investment ratios						
Land & buildings/total assets	5%*	3%	3%	4%	1%	3%
Financial investment s/core capital	40%*	1%	2%	2%	2%	2%
Financial investment s/total deposits liabilities	5%*	0%	0%	0%	0%	0%
Non-earning assets/total assets	10%*	3%	4%	5%	5%	5%

MANAGEMENT DISCUSSION AND ANALYSIS OF STATISTICAL INFORMATION

1. INCOME STATEMENT ANALYSIS

a) The Sacco's total income increased by 28% (Kshs323million) compared to year 2022(17.6%,Kshs173million) to close at Kshs.1.48 billion as at December 2023 . The growth can be attributed to the loan promotions done in the year, which grew the bridging income by 57% and interest income by 21%. Other changes done in the year included removing of the loan appraisal capping for collateralized loans which saw the appraisal fee grow by 168%

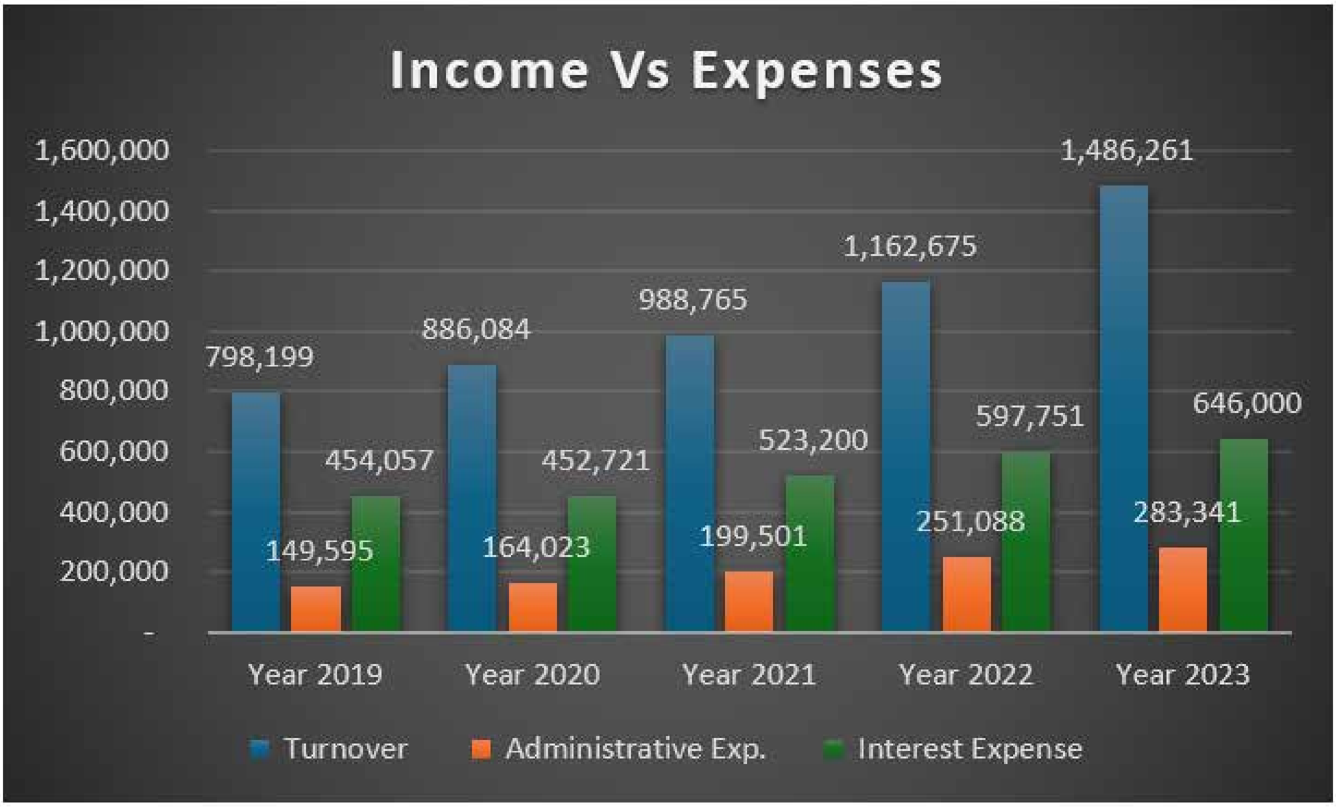
The interest from bank and fixed deposits grew by 74% up from Kshs118 million to close at Kshs.206million in 2023.

Other incomes dropped by 5% due to the separation of the books of accounts of the Kimisitu agency from SACCO.

The income realized in the year was a 94% achievement of the budget.

The administrative expenses grew by 13% to close at Ksh.283.3 million compared to the year 2022 Ksh.251million.

The interest on members deposits proposed at 9.2% up n from 9% in the year 2022. Despite the increase in loan loss provision by 270% which has resulted to a transfer to credit reserve of Kshs. 152million.



2. GROWTH IN LOANS VERSUS DEPOSITS

a) The Sacco's loan book grew by 24%(Ksh. 6.93billion in 2022.) to close at Ksh. 8.58 billion in 2023

- The loan book has been reported net of provisions.
- During the year, the SACCO held several loan promotions by offering longer repayment terms, reduction of Interest rates
- The SACCO has implemented measures such as acceptance of collateral, boosting facilities to increase the loan uptake as well as secure the loans issued.
- To ensure sustainability, the SACCO intends to carry out a extensive product review process, Investing in member education, introducing the micro finance unit.

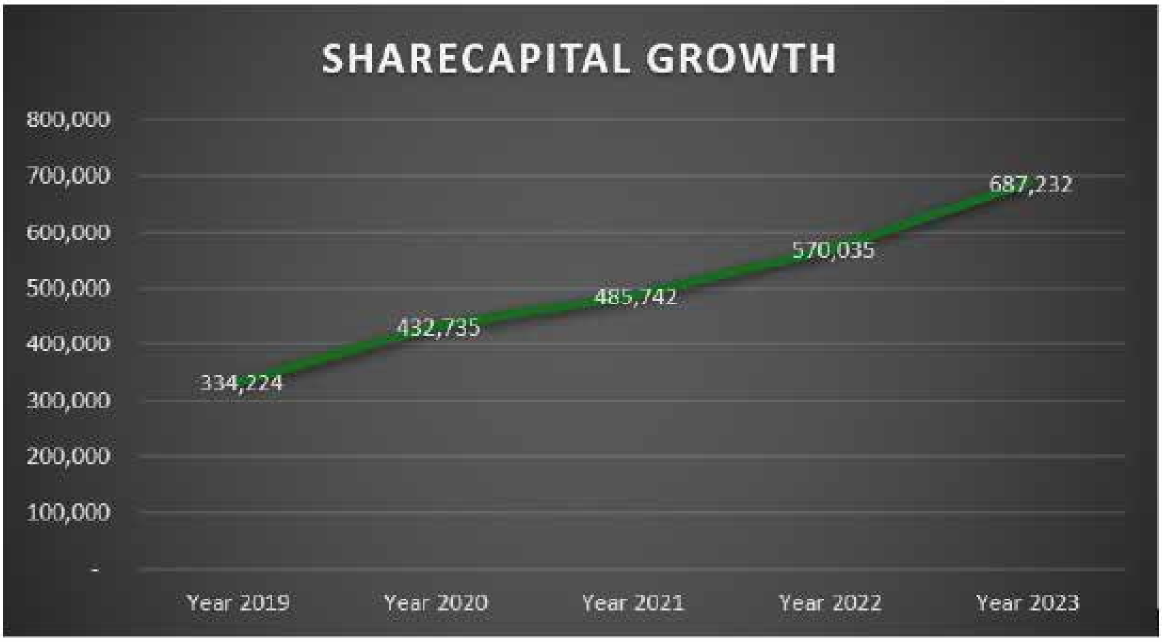
b) The Deposits grew by 14%(2022, 10%) to close at Kshs. 7.9 billion up from Kshs. 7billion in 2022.

- The SACCO held a one member campaign to increase the membership which saw the increase in the contribution to deposits
- The deposits are normally applied as cash collateral to the borrowers and therefore are utilized incase of default. This has affected the deposits movement in the year as the rate of default increased to 18% up from 10.4% in 2022.
- The SACCO plans to introduce a loyalty programme which is aimed at motivating the members to put inmore deposits and patronize the SACCO products.

3. GROWTH IN MEMBERS SHARE CAPITAL

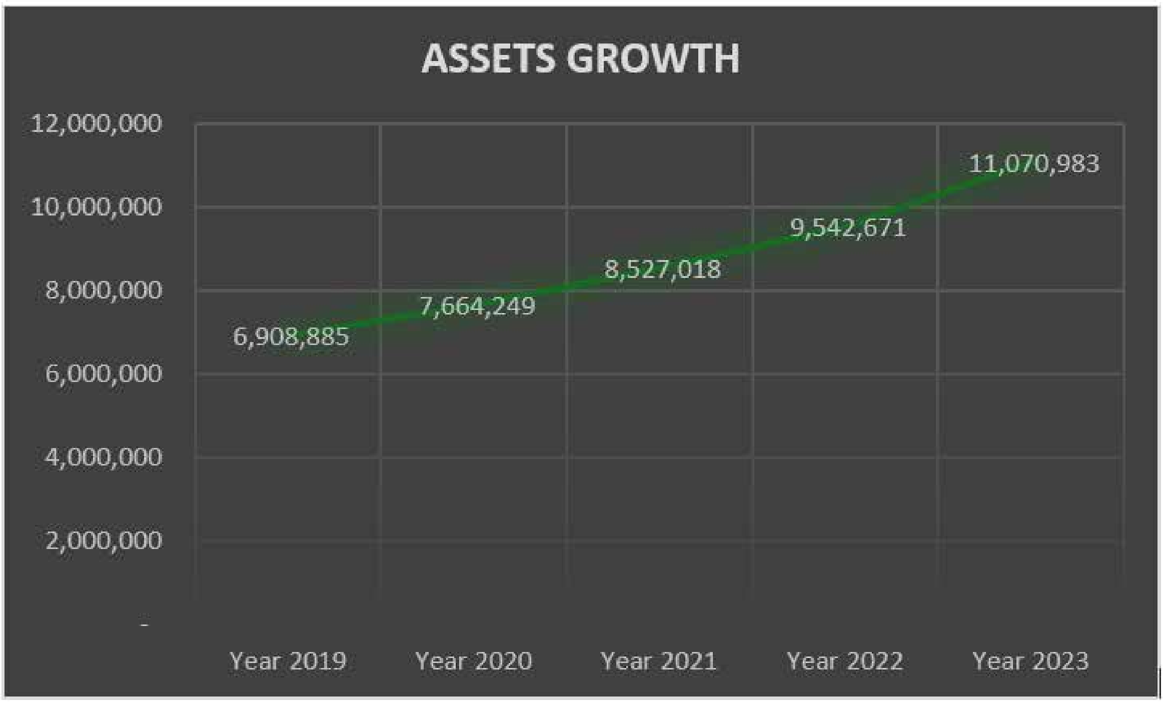
The Sacco's Share capital grew by Kshs 117 million (20%) up from a growth of Kshs 84 million (14.8% growth 2022) to close at Kshs 687million in 2023.

- The growth is attributed to the increase in membership by 25% (2608 members)
- The SACCO Has enabled members to contribute to the share capital by allowing a spread of a maximum of 30 months.
- To encourage investment in the sharecapital the SACCO has maintained a competitive rate of return at 15%



4. GROWTH IN ASSET BASE

The Total asset base of the Sacco increased from Kshs 9.5billion to Kshs. 11.07billion in the year, a growth of 16% (2022, 11.9%). The growth has been largely accelerated by the increaseof the loan book by 24% , Equity instruments, growth in intangible assets, property and equipment, and largely financed by the member deposits which grew with 14% in the year .



5. INCOME DISTRIBUTION 2023

The income distribution for the year 2023 was as below.

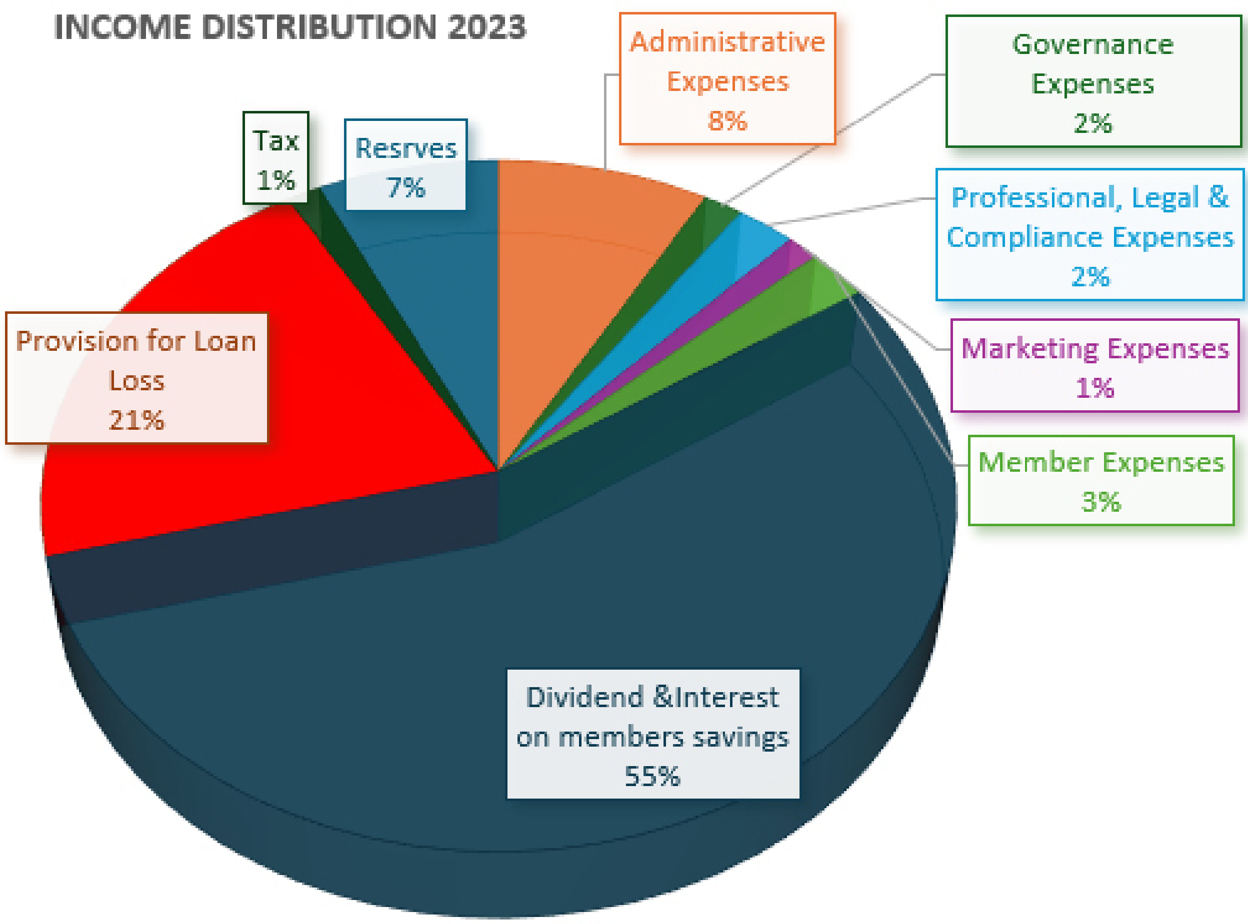
The Dividends and interest on members savings had the largest share of the distribution followed by provision for loan loss and transfer to reserves.

The percentage attributed directly to the membership accounted for 72%(Dividend & Interest, Members expenses and provision for loan loss) of the distribution . The effects of the portfolio at risk of 18% has negatively affected the members' dividend payout.

Governance, marketing and tax expenses has each accounted for 1% of the distribution.

The administrative and staff expenses accounted for 8% respectively.

The professional and legal has accounted for 2%, this is largely attributed to the forensic audit , strategic plan and financial audit costs.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2023

The Sacco Societies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Society as at the end of the financial year and of its profit or loss for that year.

It also requires the directors to ensure that the Society maintains proper accounting records that: (a) show and explain the transactions of the Society; (b) disclose, with reasonable accuracy, the financial position of the Society; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Sacco Societies Act. The directors are also responsible for safeguarding the assets of the Society, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Sacco Societies Act, 2008. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Society's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Society's ability to continue as a going concern.

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

Approved by the board of directors on **27th February 2024** and signed on its behalf by:

Chris Duncan Agunga
Chairperson

Ken Njogu Mwangi
Treasurer

Banice Mbuki Mburu
Honorary Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIMISITU SACCO SOCIETY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Kimisitu Sacco Society Limited (the Society) set out on pages 52 to 96 which comprise the statement of financial position at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Kimisitu Sacco Society Limited as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Sacco Societies Act.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the Society's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans to members Loans and advances to customers comprise a significant portion of the Sacco's total assets. The estimation of expected credit losses (ECL) on loans and advances to members requires management judgment in the assumptions that are applied in the models used to calculate ECL.	Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included: • We obtained the Sacco's methodology for determining ECL, including changes in the year, and evaluated this against the requirements of IFRS 9;

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu B Nganjiri R Njoroge S O Norbert's B Okundi B Ngunjiri K Saiti

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIMISITU SACCO SOCIETY LIMITED (CONTINUED)

KEY AUDIT MATTERS CONTINUED

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
The policies for estimating ECL are explained in notes 2 (i) and 23 (i) of the financial statements.
The key areas where significant judgement has been xercised and therefore, an increased level of audit focus applied, include:

the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments;
the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and
the relevance of forward-looking information used in the models.

Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.
</td><td>

We tested how the Sacco extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Sacco's model and the respective customer files; In addition, we assessed the qualitative information applied by the Sacco in determining the appropriate staging;
We obtained an understanding of the basis used to determine the probabilities of default;
We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis;
For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports;
We tested, on a sample basis, the reasonableness of EAD for on balance sheet exposures;
For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and

We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.
</td></tr>
</table>

OTHER INFORMATION

The other information comprises the Society information, Report of the directors, Statistical information, and Statement of Directors' Responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the annual report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, , except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIMISITU SACCO SOCIETY LIMITED (CONTINUED)

OTHER INFORMATION CONTINUED

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

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

When we read the rest of the other information in the annual report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the requirements of the Sacco Societies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of management's 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIMISITU SACCO SOCIETY LIMITED (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS CONTINUED

significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.

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

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

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

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Sacco Societies Act, we report to you based on our audit that:

i. We have obtained reasonable assurance that the Society is solvent and have not identified any significant concerns with respect to the financial condition of the Society's business;

ii. The Sacco has complied with various capital ratios required by the Sacco Societies Act, with the exception of the institutional capital ratio as summarised in note 24;

iii. We are not aware of any other violation of prudential standards or conditions of the licence; and

iv. We are not aware of any other contravention of the Sacco Societies Act.

Richard Njoroge

FCPA Richard Njoroge – Practising Certificate No. 1244
Engagement partner responsible for the audit
For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

27th February 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2023

	Note	2023 Shs'000	2022 Shs'000
Revenue			
Income from loans and advances	4	1,263,311	1,026,147
Interest income from other financial instruments	5	206,293	118,976
Total Interest income		1,469,604	1,145,123
Interest expense	6	(652,141)	(601,754)
Net interest income		817,463	543,369
Fee and commissions	7(a)	6,425	3,737
Other operating income	7(b)	10,233	13,815
Administration expenses	8	(283,341)	(251,088)
Other operating expenses	9	(53,669)	(56,947)
Credit impairment charge	10	(127,454)	(75,680)
Surplus before income tax		369,657	177,206
Income tax expense	11(a)	(17,743)	(8,987)
Surplus for the year		351,914	168,219
Other comprehensive income			
Fair value loss on equity instruments	15 (a)	(2,710)	(95)
Fair value gain on property	20 (b)	26,828	-
Deferred tax		(3,419)	-
		20,699	(95)
Total comprehensive income for the year, net of tax		**372,613**	**168,124**

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2023

	Note	2023 Shs'000	2022 Shs'000
Assets			
Cash and bank balances	12(a)	178,101	270,550
Short term deposits and investments held with financial institutions	12(b)	1,621,173	1,286,214
Loans to members	14	8,582,636	6,927,368
Prepayments and other receivables	13	30,371	18,360
Equity Instruments at FVOCI	15(a)	18,300	21,010
Investments in government securities - at amortised cost	15(b)	231,389	623,000
Intangible assets	16	31,858	44,662
Property and equipment	20(a)	270,155	351,329
Investment property	20(b)	107,000	-
Deferred tax	11(c)	-	178
Total assets		11,070,983	9,542,671
Liabilities			
Members' non-withdrawable deposits	17	7,990,739	7,006,250
Member's savings and other deposits	18	402,345	330,931
Other liabilities	19	901,210	841,698
Income tax payable	11(b)	7,591	2,240
Deferred tax	11(c)	3,241	-
Total liabilities		9,305,126	8,181,119
Equity			
Statutory reserve	21(a)	273,110	202,727
Revenue reserves	21(b)	215,253	203,354
Other reserves	21(c)	166,959	132,184
Credit risk reserve	21(d)	320,218	167,747
Proposed dividends	22	103,085	85,505
Share capital	22	687,232	570,035
Total equity		1,765,857	1,361,552
Total equity and liabilities		11,070,983	9,542,671

APPROVED
for publication and presentation
to AGM or ADM subject to observations Issued
28 FEB 2024
SIGN:
THE SACCO SOCIETIES REGULATORY AUTHORITY

The financial statements on pages 52 to 96 were approved by the Board of Directors on **27th February 2024** and were signed on its behalf by:

Chris Duncan Agunga
Chairperson

Ken Njogu Mwangi

Treasurer

Banice Mbuki Mburu
Honorary Secretary

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2023

Year ended 31 December 2023	Share capital	Credit reserve	Revenue reserve	Statutory reserve	Other reserves	Proposed dividends	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	570,035	167,747	203,354	202,727	132,184	85,505	1,361,552
				-	-	-	-
Total comprehensive income for the year	-	-	351,914	-	20,699	-	372,613
Transactions with members:	-	-	-	-	-	-	-
Shares issued	117,197	-	-	-	-	-	117,197
Dividends paid during the year	-	-	-	-	-	(85,505)	(85,505)
Proposed dividend for 2023	-	-	(103,085)	-	-	103,085	-
Transfer to statutory reserve	-	-	(70,383)	70,383	-	-	-
Transfer to credit reserve	-	152,471	(152,471)	-	-	-	-
Transfer to general reserve	-	-	(14,076)	-	14,076	-	-
At end of year	687,232	320,218	215,253	273,110	166,959	103,085	1,765,857

Year ended 31 December 2022	Share capital Shs'000	Credit reserve Shs'000	Revenue reserve Shs'000	Statutory reserve Shs'000	Other reserves Shs'000	Proposed dividends Shs'000	Total Shs'000
At start of year	485,742	182,756	136,245	169,083	125,550	72,861	1,172,237
Prior year adjustments	-	-	9,759	-	-	-	9,759
Total comprehensive income for the year	-	-	168,219	-	(95)	-	168,124
Transactions with members:	-	-	-	-	-	-	
Shares issued	84,293	-	-	-	-	-	84,293
Dividends paid during the year	-	-	-	-	-	(72,861)	(72,861)
Proposed dividend for 2022	-	-	(85,505)	-	-	85,505	-
Transfer to statutory reserve	-	-	(33,644)	33,644	-	-	-
Transfer to credit reserve	-	(15,009)	15,009	-	-	-	-
General reserve	-	-	(6,729)	-	6,729	-	-
At end of year	570,035	167,747	203,354	202,727	132,184	85,505	1,361,552

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2023

	Notes	2023 Shs'000	2022 Sh'000
Cash flows from operating activities			
Surplus before taxation		369,657	177,206
Adjustments for:			
Amortisation of intangible assets	8(b)	13,721	9,036
Depreciation of PPE	8(b)	14,324	11,666
Loss on disposal	7(b)	88	-
Accrued interest and unamortised premium on government securities	15(b)	(11,389)	-
Cash flows from operating activities before changes in operating assets and liabilities		386,401	197,908
Changes in operating assets and liabilities			
Loan to members	14	(1,655,268)	(784,538)
Prepayments and sundry receivables	13	(12,011)	21,904
Members' deposits and other members savings	17&18	1,055,903	772,109
Payables, accruals & sundry provisions	19	59,512	67,369
Cash generated from operations		(165,463)	274,752
Income taxes paid	11	(12,392)	(22,126)
Net cash from operating activities		(177,855)	252,626
Cash flows from financing activities			
Dividends paid		(85,505)	(72,861)
Share capital received	22	117,197	84,293
Net cash from financing activities		31,692	11,432
Cash flow from Investing activities			
Purchase of property and equipment	20(a)	(13,730)	(10,308)
Purchase of intangible assets	16	(917)	(12,544)
Purchase of government securities	15	-	(365,000)
Purchase of investments in equities	15	-	(2,000)
Maturities of government securities	15	403,000	-
Proceeds from disposal of property and equipment	20(a)	320	-
Net cash used in investing activities		388,673	(389,852)
Net decrease in cash and cash equivalents		242,510	(125,794)
Cash and cash equivalents at start of year		1,556,764	1,682,558
Cash and cash equivalents at end of year	12	1,799,274	1,556,764

NOTES

1 GENERAL INFORMATION

Kimisitu Sacco Society Limited (the "Society") (Registration Number CS/4252) is registered in Kenya with its principal place of business and registered office at AEA Plaza, Valley Road P.O Box 10454-00100.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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 Society's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Co-operative Societies Act. The financial statements have been prepared under the historical cost convention, except for financial assets measured at fair value through other comprehensive income and investment properties which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgment in the process of applying the Society's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Society's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

b) Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Society

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
B) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)
(I) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED BY THE SOCIETY (CONTINUED)

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 (Published May 2017)	This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Annual periods beginning on or after 1 January 2023. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately.	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

These amendments have not had any significant impact on the Society's financial statements.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
B) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)
II) NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE SOCIETY

Number	Effective date	Executive summary
Amendments to IAS 1 – Non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024 (Published January 2020 and November 2022)	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IFRS 16 – Leases on sale and leaseback	Annual periods beginning on or after 1 January 2024 (Published September 2022)	The amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	Annual periods beginning on or after 1 January 2024 (Published May 2023)	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.
Amendments to IAS 21 Lack of Exchangeability	Annual periods beginning on or after 1 January 2025 (Published August 2023)	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, they don't expect a significant impact on the Society's financial statements.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The financial statements are presented in Kenya Shillings, which is also the functional currency (see I below), rounded to the nearest thousand ('Sh'000).

d) Intangible assets

Intangible assets represent computer software and are stated at cost less amortisation and accumulated impairment losses. Intangible assets acquired separately are measured on initial recognition at cost. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Society. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The residual values, amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each financial year.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets is presented in depreciation/ amortisation in profit or loss.

The carrying amount of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Amortisation is calculated to write off the cost of the software on a straight-line basis at an annual rate of 25%.

The carrying amount of the Society's intangible assets is disclosed in note 16 to the financial statements.

e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Costs includes expenditures that are directly attributable to the acquisition of the asset such as the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects, if the recognition criteria are met.

Derecognition

Depreciation is calculated using the reducing balance methos to write down cost of each asset to its residual value over its estimated useful life.

The annual depreciation rates are:

Buildings	2.5%
Office Equipment	12.5%
Furniture, Fixtures & Fittings	12.5%
Computer and computer accessories	30%
Motor Vehicle	25%

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each financial year and adjusted prospectively, if appropriate.

Refer to Note 2(p) - impairment of non-financial assets for further information about impairment. The carrying amounts of the Society's property and equipment are disclosed in note 20 (a) to the financial statements.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
E) PROPERTY AND EQUIPMENT (CONTINUED)

Derecognition

The carrying amount of an item of property and equipment is derecognised:

(i) on disposal; or
(ii) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition of an item of property and equipment is determined by reference to its carrying amount and included in profit or loss when the item is derecognised.

f) Taxation

The tax expense for the year comprises current income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Income Tax Act Section 19(A) 4 (the "Act") which states that current income tax will be 30% (2022: 30%) of the total income deemed to be the aggregate of:

- 50% of its gross income from interest (other than interest from members);
- gross rental income, ascertained in accordance with the provisions of the Act;
- capital gains tax; and
- any other income (excluding royalties) chargeable to tax not falling within the first two points.

Deferred tax is recognized on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

g) Risk management fund

Members make contributions to the Society to cater for insurance premiums for insurance cover over deceased members' loans balances and deposits. Contributions to the risk management fund are based on the loan amount. The excess of members' contributions over premium payments is recorded under risk management fund. The carrying amount at the end of the period is disclosed under other liabilities and accrued expenses and utilised for loaning activity in subsequent years.

h) Reserves

(i) Statutory reserve

The Society transfers at least 20% of its net operating surplus before tax charge and dividends payable on members' fully paid shares for the year to the statutory reserve in accordance with section 47(1&2) of the Co-operative Societies Act (CAP 490). The reserve is meant to strengthen the capital base of the Society. The reserve is not distributable.

(ii) General reserves

General reserves are permanent, unencumbered, uncollectible reserves and are included in other reserves.

They comprise of 5% transfer of the net operating surplus and are not available for distribution.

(iii) Other reserves

This is a reserve for the gain in fair value on quoted shares increase as a result of deferred tax asset.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Credit risk reserve

The Society transfers the excess provision for loans and advances determined in accordance with the Sacco Society Regulatory Authority (SASRA) requirements compared with the requirements of IFRS 9. The adjustment is recognised as a loan loss reserve and accounted for as an appropriation of retained earnings in the statement of changes in equity. The reserve is not available for distribution.

i) Financial instruments

The Society classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and financial assets at amortized cost. Management determines the appropriate classification of its financial assets at initial recognition.

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Society commits to purchase or sell the asset.

At initial recognition, the Society measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit and loss are expensed in profit and loss. Immediately after initial recognition, an expected credit loss allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets

i) Classification and subsequent measurement

The Society classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

- the Society's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Society classifies its debt instruments into one of the following three measurement categories:

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortised cost: 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 FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 3 (a). 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 (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured 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 within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method

Business model

The business model reflects how the Society manages the assets in order to generate cash flows. That is, whether the Society's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

Factors considered by the Society in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Society assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Society considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Society reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
I) FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

The Society records the allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss (FVPL), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Society's policies for determining if there has been a significant increase in credit risk are set out in note 23.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Overview of ECL principles

The Society has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 23.

Based on the above process, the Society groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognised, the Society recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Society records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit impaired. The Society records an allowance for the LTECLs.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 23(i).

EAD The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments. The EAD is further explained in Note 23(i).

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 23(i).X

When estimating the ECLs, the Society considers three scenarios (a base case, optimistic (upside) and pessimistic (downside)). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Society has the legal right to call it earlier.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
I) FINANCIAL INSTRUMENTS (CONTINUED)
FINANCIAL ASSETS (CONTINUED)

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Society calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.

These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Society records an allowance for the LTECLs.

The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Society recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Society has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
    (a) the Society has transferred substantially all the risks and rewards of the asset, or
    (b) the Society has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Society has transferred its rights to receive cash flows from an asset or has entered a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Society continues to recognise the transferred asset to the extent of the Society's continuing involvement. In that case, the Society also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Society has retained.

Write-offs

Financial assets are written off either partially or in their entirety only when the Society has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
I) FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Society's financial liabilities include members' deposits, withdrawable members' deposits, other payables, borrowings, interest payable and amounts due to related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Payables:- Are stated at their nominal value.

Non withdrawable deposits :-Are recorded at the proceeds received and are recognised as a financial liability in the statement of financial position. Interest payable on the non-withdrawable deposits is accounted for on the accrual basis in profit or loss. These deposits have no specific terms. Interest is paid annually based on the board of directors' recommendation. They are refundable upon cessation of membership.

Member's savings account :-Are recorded as ordinary savings at the amounts received and are recognised as a financial liability in the statement of financial position.

j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

k) Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Society. It comprises of interest income and non-interest income. Income is recognized on accrual basis in the period it is earned.

- Interest on members' loans and advances

Interest income and expense for all interest-bearing instruments are recognised in the profit and loss as it accrues considering the effective interest rate of the asset or any applicable floating rate.

The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of financial asset or liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets the

Sacco estimates future cashflows considering all contractual terms of the financial instrument but not expected credit losses. The calculation of the effective interest rate includes transactions costs and fees and points paid or received that are an integral part of the effective interest rate. Transactions costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

- Fees, commissions, and other income

In the normal course of business, the Society earns fees and commission income from a diverse range of services to its members. Fees and commission income are recognised at the time of effecting the transaction. Other income is recognised on accrual basis.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Dividend income

Dividend income is recognised when the Society's right to receive the payment is established. They are presented in other income at fair value through profit or loss.

l) Interest on members' savings

Non withdrawable deposits are stated at nominal value and the respective interest is accrued and recognised as interest payable in the statement of financial position and interest expense in profit or loss.

Interest expense is recorded using the EIR. The calculation takes into account all of the contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Members' savings (FOSA) are stated at their nominal value.

m) Leases

Leases under which the Society is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Society recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date.

The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Society is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Society's incremental borrowing rate is used.

For leases that contain non-lease components, the Society allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Society at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
M) LEASES (CONTINUED)

Leases under which the Society is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Society has not entered into any finance leases.

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Society has not entered into any finance leases.

n) Employee benefits

(i) Retirement benefits obligations

The Society operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Society.

Contributions to the defined contribution plan are recognized in profit or loss as incurred. Any difference

between the amount recognized in profit or loss and the Contributions payable is recognized in the statement

of financial position under other receivables or other payables.

The Sacco also contributes to a statutory defined contribution pension scheme, the National Social Security

Fund (NSSF). Contributions are determined by the local statute.

(ii) Termination benefits

Employee entitlements to termination benefits are recognized when the Sacco is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized if the Sacco has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. The Sacco has not made redundancy offers in the year.

(iii) Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Sacco has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

o) Provisions

Provisions for liabilities are recognized when there is a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Impairment of non-financial assets

The Society assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Society estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Society estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

q) Fair value measurement

The Society measures equity investments at fair value through other comprehensive income at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or for which fair values are disclosed are included in notes 15.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Society uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described as follows:

NOTES (CONTINUED)
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Q) FAIR VALUE MEASUREMENT (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Society determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

r) Comparatives

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Society's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis and are based on experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Society's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Society's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

NOTES (CONTINUED)

4 Interest income on loans and advances

	2023 Shs'000	2022 Shs'000
Interest on loans and advances	1,182,233	977,370
Interest on bridged loans	70,368	44,785
Loan processing fees	10,710	3,992
	1,263,311	1,026,147

5 Interest income from other financial instruments

Wealth management	52,115	34,607
Bank deposits	50,919	2,188
Money market fund	44,950	60,331
Treasury bills	3,500	18,533
Treasury bonds	54,809	3,317
	206,293	118,976

6 Interest expense

Interest on members' non withdrawable deposits	646,000	597,751
Interest on Holiday savings accounts	1,738	1,823
Interest on Little angels' accounts	2,347	2,180
Interest on Wekeza savings accounts	2,011	-
Interest on FOSA Savings	45	-
	652,141	601,754

7(a) Fee and commissions

Mobile banking charges	4,149	3,269
ATM, processing and transaction income	2,276	468
	6,425	3,737

NOTES (CONTINUED)

7(b) Other operating income

	2023 Shs'000	2022 Shs'000
Entrance fees	3,026	2,333
Member withdrawal charges	1,794	1,915
Member card replacement charge	75	81
Dividends	1,097	742
Sale of tender	803	1,020
Disbursement charge	16	938
Rent income	3,510	3,265
Insurance agency commission	-	3,521
Loss on asset disposal	(88)	-
	10,233	13,815

8(a) Employee benefits

Salaries and wages	89,101	86,738
Proposed staff bonus	5,000	14,684
Retirement benefits	15,202	15,521
Insurance expenses	12,370	10,465
Employer NSSF contribution	673	141
Employer AHL contribution	626	-
	122,972	127,549

8(b) Administration expenses

Employee benefits (Notes 8(a))	122,972	127,549
Maintenance expenses	44,125	43,436
General insurance expense	3,938	2,778
Office expenses	17,052	11,789
Training expense	5,484	12,139
Depreciation (Note 20)	14,324	11,666
Licences and subscriptions	10,451	10,288
Marketing expenses	16,972	9,713
Amortisation (Note 16)	13,721	9,036
Consultancy	9,592	3,387
Auditor remuneration	3,959	3,735
Strategic planning expenses	7,902	2,817
Bank charges	2,048	1,963
Legal fees	129	346
Debt management fee	511	134
Donations	289	312
Forensic audit	9,872	-
	283,341	251,088

NOTES (CONTINUED)

		2023 Shs'000	2022 Shs'000
9	**Other operating expenses**		
(a)	**Member expenses**		
	Annual General Meeting (AGM) expenses	17,508	13,709
	Members' training	10,437	10,151
	Co-op annual events	4,782	3,650
		32,727	27,510
(b)	**Governance expenses**		
	Sitting allowances	9,502	10,269
	Board training expenses	5,220	7,641
	Board travel expenses	430	382
	Provision for honoraria	5,000	10,454
	Other expenses	790	691
		20,942	29,437
		53,669	56,947

10	**Credit impairment charge**		
	At start of year	298,566	222,886
	Charge for the year	127,454	75,680
	At end of year	426,020	298,566

11 Taxation

In accordance with income tax rules applicable to Cooperative Savings and Credit Societies, tax is only payable on non-member interest income as shown below:

(a) Current income tax expense

Current income tax expense	17,743	8,987
Reconciliation of income tax charge to the expected tax based on accounting surplus:		
Accounting surplus before income tax	359,050	177,206
Tax at the applicable rate of 30% (2022: 30%)	107,715	53,162
Tax effect on net income that is not taxable	(424,483)	(325,691)
Tax effect on non-allowable interest on non-withdrawable deposits	334,511	281,516
	17,743	8,987

NOTES (CONTINUED)

11 Taxation

(b) Current income tax liability

	2023 Shs'000	2022 Shs'000
At start of year	2,240	15,379
Charge for the year	17,743	8,987
Paid during the year	(12,392)	(22,126)
	7,591	2,240

(c) Deferred tax

Deferred income tax is calculated using the enacted income tax rates. The deferred income tax asset is made up as follows:

	At start of year Shs'000	Prior year understatement Shs'000	Recognized in other comprehensive income Shs'000	At end of year Shs'000
2023:				
Fair value on equity investments	178	198	407	783
Fair value on property	-	-	(4,024)	(4,024)
	178	198	(3,617)	(3,241)
2022:				
Fair value reserve on equity investments	178	-	-	178

12 (a) Cash and bank balance

Current accounts with banks:	2023 Shs'000	2022 Shs'000
NCBA Bank	114,192	158,932
Co-operative Bank of Kenya	3,257	3,772
Kenya Commercial Bank	23,253	22,905
FOSA treasury	3,367	2,506
Safaricom – M PESA	34,032	82,435
	178,101	270,550

The current accounts and M PESA balances are non-interest bearing.

NOTES (CONTINUED)

12 (b) Short term deposits and investments held with financial institutions

	2023 Shs'000	2022 Shs'000
NCBA Bank	355,053	50,000
KUSCCO	353,949	356,931
Britam Holdings	339,658	230,025
Kenya Commercial Bank	334,254	50,162
Co-operative Bank of Kenya	230,865	35,012
SANLAM Insurance	4,686	327,034
CIC Asset management	1,311	235,661
SBM Bank	1,302	1,302
ICEA Asset Management	95	87
	1,621,173	1,286,214

Short term placements are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Society. The weighted average interest rate is 11 % (2022: 9.2%).

13 Prepayments and other receivables

	2023 Shs'000	2022 Shs'000
Prepayments	5,958	7,853
Security deposits	363	363
Deposit guard insurance	24,050	10,144
	30,371	18,360

14 Loans to members

	2023	2022
Gross loans:		
At start of year	7,225,934	6,365,716
Loans originated in the year	5,012,622	5,361,014
Interest receivable	114,571	28,080
Loan repayments in the year	(3,344,471)	(4,528,876)
At end of year	9,008,656	7,225,934
Credit impairment provision:		
At start of year	(298,566)	(222,886)
Charge for the year	(127,454)	(75,680)
At end of year	(426,020)	(298,566)
Net carrying value	8,582,636	6,927,368

NOTES (CONTINUED)
14 LOANS TO MEMBERS (CONTINUED)

The tables below analyses how the loans and advances classification as per SASRA classification compare to the IFRS 9 classification.

IFRS 9 classification for the year ended 31 December 2023

Category	Number of Loans	Gross loans and advances Shs'000	Expected credit losses (ECL) Shs'000	Net loans and advances Shs'000
Stage 1	9,425	7,465,592	(108,972)	7,356,620
Stage 2	1,806	956,916	(92,215)	864,701
Stage 3	2,710	586,148	(224,833)	361,315
		9,008,656	(426,020)	8,582,636

IFRS 9 classification for the year ended 31 December 2022

Category	Number of loans	Gross loan balance Shs'000	Expected credit losses (ECL) Shs'000	Net loans and advances Shs'000
Stage 1	9,497	6,131,751	(121,785)	6,009,966
Stage 2	610	664,329	(46,746)	617,583
Stage 3	1,133	429,854	(130,035)	299,819
		7,225,934	(298,566)	6,927,368

SASRA classification for the year ended 31 December 2023

	Gross loans balance Shs'000	SASRA provision Shs'000	Net loans and advances Shs'000
0 days (Normal)	5,080,304	(50,803)	5,029,501
1 - 30 days (Watch)	2,386,724	(119,337)	2,267,387
31 - 180 days (Substandard)	1,212,069	(315,045)	897,024
181 - 360 days (Doubtful)	137,012	(68,506)	68,506
> 360 days (Loss)	192,547	(192,547)	-
	9,008,656	(746,238)	8,262,418

The excess of the SASRA provisions and IFRS 9 of Shs 320,218,000 (2022: Shs 167,747,000) has been included in the credit risk reserve in equity.

NOTES (CONTINUED)

14 LOANS TO MEMBERS (CONTINUED)

SASRA classification for the year ended 31 December 2022

	Gross loans balance Shs'000	SASRA provision Shs'000	Net loans and advances Shs'000
0 days (Normal)	5,205,865	(43,887)	5,161,978
1 - 30 days (Watch)	1,332,126	(86,839)	1,245,287
31 - 180 days (Substandard)	505,928	(225,923)	280,005
181 - 360 days (Doubtful)	79,254	(39,817)	39,437
> 360 days (Loss)	102,761	(102,761)	-
	7,225,934	(499,227)	6,726,707

The effective interest rates on loans and advances for the year was 14.8 % (2022: 14.8%).

15 (a) Equity instruments held at fair value through other comprehensive income

	2023 Shs'000	2022 Shs'000
Quoted equity investments	1,882	2,066
Unquoted equity investments	16,418	18,944
	18,300	21,010

The movement in the year is analysed in the table below;

At start of year	21,010	19,105
Additions	-	2,000
Fair value loss	(2,710)	(95)
At end of year	18,300	21,010

Quoted equity investments

	2023			2022		
Institution	No. of Shares	Price. Shs.	Fair value Shs'000	No. of Shares	Price. Shs.	Fair value Shs'000
Cooperative Bank of Kenya Limited	168,000	11.2	1,882	168,000	12.3	2,066

Fair values for quoted financial assets are determined by reference to the Nairobi Securities Exchange prices on the reporting date.

NOTES (CONTINUED)

15 (a) Equity instruments held at fair value through other comprehensive income

Unquoted equity investments

Institution	2023			2022		
	No. of Shares	Price (Shs)	Fair value (Shs'000)	No. of Shares	Price (Shs)	Fair value (Shs'000)
KUSCCO	40,788	100	4,079	40,788	100	4,079
C.I.S Limited	1,348,440	3.5	4,720	1,348,440	3.5	4,720
CIC Sacco	450,000	3.5	1,575	450,000	3.5	1,575
Cooperative Bank Holdings	480,917	6.75	3,246	480,917	7.2	3,463
Kimisitu Investment Company Limited	279,840	10	2,798	279,840	18.25	5,107
			16,418			18,944

The Society holds unquoted shares in Kimisitu Investment Company Limited. The carrying amount approximates the discounted cashflows.

Co-operative Insurance Company Limited

Share prices are determined by reference to the Co-op Holdings Co-operative Society Limited Share Registration Services guidelines to all Cooperative Societies on the determination of share prices.

The Society holds unquoted shares in KUSCCO. The carrying amount approximates the fair value given that the share price has remained constant for the last four years.

15 (b) Investment in government securities at amortised cost

	Treasury bills Shs'000	Treasury bonds Shs'000	Total Shs'000
At 1 January 2023	403,000	220,000	623,000
Additions	-	-	-
Maturities	(403,000)	-	(403,000)
Accrued interest income	-	3,740	3,740
Unamortised premium	-	7,649	7,649
At 31 December 2023	-	231,389	231,389
At 1 January 2022	258,000	-	258,000
Additions	145,000	220,000	365,000
At 31 December 2022	403,000	220,000	623,000

NOTES (CONTINUED)

15 (b) Investment in government securities at amortised cost (amortised cost)

The Sacco has invested in a 10-year treasury bond with a face value of Shs 200 million (2022: Shs 200 million) and a 14-year infrastructure bond with a face value of Shs 20 million (2022: Shs 20 million). The Society's intention is to hold these financial instruments to collect principal and interest. The effective interest rates on investment in treasury bonds was 14.4% (2022: 13.5%) and treasury bill 10.7% (2022: 9.8%).

16 Intangible assets

	Software Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2023			
Cost:			
At start of year	56,111	16,081	72,192
Additions	746	171	917
Transfers	3,655	(3,655)	-
At end of year	60,512	12,597	73,109
Amortisation:			
At start of year	(27,530)	-	(27,530)
Charge for the year	(13,721)	-	(13,721)
At end of year	(41,251)	-	(41,251)
Net carrying value	19,261	12,597	31,858
Year ended 31 December 2022			
Cost:			
At start of year	23,538	36,110	59,648
Additions	12,544	-	12,544
Transfers	20,029	(20,029)	-
At end of year	56,111	16,081	72,192
Amortization:			
At start of year	(18,494)	-	(18,494)
Charge for the year	(9,036)	-	(9,036)
At end of year	(27,530)	-	(27,530)
Net carrying value	**28,581**	**16,081**	**44,662**

The Society's intangible assets comprise computer software. The Society does not have any contractual commitments for acquisition of intangible assets.

NOTES (CONTINUED)

17 Members deposits

	2023 Shs'000	2022 Shs'000
At start of year	7,006,250	6,347,686
Deposits during the year	1,692,074	1,151,935
Member offsets , refunds and recoveries during the year	(707,585)	(493,371)
At end of year	7,990,739	7,006,250

These are Back Office Saving Activity Office (BOSA) deposits by members. The minimum deposit is Shs 2,000 monthly. A member may be refunded the amount saved in his non-withdrawable deposit account within 60 days after giving a written notification. Interest is paid annually based on the Board of directors' recommendation. The proposed interest rate for 2023 is 9.2% (2022: 9%).

18 Member's savings and other deposits

	2023 Shs'000	2022 Shs'000
Holiday accounts	24,237	24,376
Little angels accounts	36,870	32,895
M-Kimisitu wallet	108	54
Wekeza accounts	25,538	36,550
FOSA accounts	314,015	236,466
Benevolent accounts	230	133
Joint accounts	836	84
Miradi	511	373
	402,345	330,931

19 Other liabilities

Payables to members (Note 19(a))	706,561	659,155
Trade payables	63,872	41,052
Accrued expenses	15,696	20,752
Loan risk insurance	110,976	103,063
Other payables	4,105	17,676
	901,210	841,698

(a) Payable to members:

Interest on non-withdrawable deposits	686,329	597,751
Interest on Savings deposits	1,783	36,553
Provision for Honoraria	10,654	10,454
Other member payables	7,795	14,397
	706,561	659,155

20 PROPERTY AND EQUIPMENT

	Freehold land Shs'000	Buildings Shs'000	Motor vehicles Shs'000	Furniture fixtures and fittings Shs'000	Computer hardware Shs'000	Office equipment Shs'000	WIP Shs'000	Total Shs'000
31 December 2023								
Cost:								
At 1 January	70,000	239,230	2,338	9,996	18,723	46,938	7,085	394,310
Additions	-	7,085	-	285	3,835	9,610	(7,085)	13,730
Disposals	-	-	-	-	(939)	(116)	-	(1,055)
Revaluation surplus	20,500	5,295	-	-	-	1,033	-	26,828
Transfers to investment property	(90,500)	(15,500)	-	-	-	(1,000)	-	(107,000)
	-	236,110	2,338	10,281	21,619	56,465	-	326,813
Depreciation:								
At 1 January	-	6,852	1,608	5,000	12,843	16,678	-	42,981
Charge for the year	-	6,016	185	665	2,243	5,215	-	14,324
Disposals	-	-	-	-	(547)	(100)	-	(647)
	-	12,868	1,793	5,665	14,539	21,793	-	56,658
Net book value:	-	223,242	545	4,616	7,080	34,672	-	270,155

In accordance with IAS 41 Par 61, Fair value gains at the point of transfer from property, plant and equipment to investment property, where the fair value model is adopted, are dealt with in property, plant and equipment and other comprehensive income. Subsequent gains or losses will be dealt with in profit or loss.

NOTES (CONTINUED)
20 PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land Shs'000	Building Shs'000	Motor vehicles Shs'000	Furniture fixtures and fittings Shs'000	Computer hardware Shs'000	Office equipment Shs'000	WIP Shs'000	Total Shs'000
31 December 2022								
Cost:								
At 1 January	70,000	239,230	2,338	9,986	15,479	40,983	5,986	384,002
Additions	-	-	-	10	3,244	5,955	1,099	10,308
At 31 December	70,000	239,230	2,338	9,996	18,723	46,938	7,085	394,310
Depreciation:								
At 1 January 2022	-	2,154	1,360	4,278	10,598	12,927	-	31,317
Charge for the year	-	4,698	248	722	2,245	3,751	-	11,664
At 31 December	-	6,852	1,608	5,000	12,843	16,678	-	42,981
Net book value:								
At 31 December 2022	70,000	232,378	730	4,996	5,880	30,260	7,085	351,329

NOTES (CONTINUED)

20 (b) Investment property

	Freehold land Shs'000	Building Shs'000	Total Shs'000
31 December 2023			
At start of year	-	-	-
Transfer from PPE	90,500	16,500	107,000

The fair value of investment property is determined by a real estate valuation expert using recognised valuation techniques and the principles of IFRS 13 - Fair Value Measurement.
The fair value for the investment property is based on a valuation by an independent external valuer – Kenval Realtors, a registered valuer, as at 31 December 2023 was Shs 107,000,000.

21 Reserves

(a)Statutory reserve

The statutory reserve fund is at a rate of 20% of net operating surplus after tax in compliance with the provisions of section 47(1&2) of the co-operatives Society Act Cap 490

	2023 Shs'000	2022 Shs'000
At start of year	202,727	169,083
Transfer of 20%	70,383	33,644
At end of year	273,110	202,727

(b) Revenue reserves

The revenue reserve balance represents the amount available after appropriations and forms part of the saccos reserves.

	2023 Shs'000	2022 Shs'000
At start of year	203,354	136,245
Surplus for the year	351,914	168,219
Proposed dividend for the year	(103,085)	(85,505)
Transfer to Statutory reserve	(70,383)	(33,644)
Transfer to credit reserve	(152,471)	15,009
Transfer to general reserve	(14,076)	(6,729)
Prior year adjustments	-	9,759
At end of year	215,253	203,354

NOTES (CONTINUED)

21 Reserves

(c) Other Reserves

(i) General reserve

General reserve comprises of 5% transfer of the net operating surplus

	2023 Shs'000	2022 Shs'000
At start of year	86,504	79,775
Transfer of 5%	14,076	6,729
At end of year	100,580	86,504
(ii) Revaluation reserve		
At start of year	36,098	36,098
Revaluation gains on property	22,804	-
At end of year	58,902	36,098
(iii) Revaluation reserve - investments in unquoted equity instruments		
At start of year	9,582	9,677
Revaluation (loss) on unquoted investment	(2,105)	(95)
At end of year	7,477	9,582
	166,959	132,184

(d) Credit risk reserve

The statutory loan loss reserve relates to excess provision for loans and advances determined in accordance with the SASRA requirements compared with the requirements of IFRS 9. The loan loss reserve is accounted for as an appropriation of retained earnings in the statement of changes in equity.

	2023 Shs'000	2022 Shs'000
At start of year	167,747	182,756
Transfer to/(from) credit revenue reserve	152,471	(15,009)
At end of year	320,218	167,747

NOTES (CONTINUED)

22 Share capital

The shareholding of each member is a minimum of 300 shares for Shs 100 each. Excess contributions are credited to non-withdrawable deposits on which interest is paid or credited at the discretion of the directors.

These shares are not refundable. Upon cessation of membership, the member's shares are transferred to another member on willing seller willing buyer basis. As at 31 December 2023, the Society has issued and fully paid 6.9 million (2022: 5.7 million) shares of Shs 100 each. The Sacco issued 1,171,969 shares of Shs100 each in the year ended 31 December 2023.

Share capital	**2023 Shs'000**	**2022 Shs'000**
At start of year	570,035	485,742
Contributions in the year	117,197	84,293
	687,232	570,035

Ex-members share capital represent share capital for members who have withdrawn from the Society and deceased members.

The Board has proposed a dividend pay-out of 15% amounting to Shs 103,085,000 (2022: 85,505,000) on the members' share capital.

23 Financial risk management

The Society has exposure to the following risks from its use of financial instruments:

i) Credit risk
ii) Liquidity risk
iii) Market risk
iv) Capital risk

Risk management framework

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

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

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

NOTES (CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk

Credit risk is the risk of financial loss to the Society if a member or other customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Society's loans and advances to customers and other saccos, cash and cash equivalents and other receivables. For risk management reporting purposes, the Society considers and consolidates all elements of credit risk exposure. The Society's credit department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. The Society holds collateral in the form of deposits, charged properties and guarantees in respect of loans to members.

Management of credit risk

The Society has adopted a policy (as contained in its by-laws) of only dealing with creditworthy counterparties and obtaining sufficient guarantors where appropriate, as a means of mitigating the risk of financial loss from defaults. The Society also structures the level of credit risk it undertakes by placing limits on amount of risk accepted in relation to one borrower or group of borrowers.

Impairment assessment

Definition of default and cure rate

The Society considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for expected credit loss (ECL) calculations in all cases when the borrower becomes more than 90 days past due (DPD) on its contractual payments. The cure rate assumption captures the rate of backward transitions from Stage 3 to either Stage 2 or 1. This is estimated using the same methodology as the PD. Because the PDs are modelled using annual snapshots and default is defined as facilities that are more than 30 DPD, no further adjustment is made to the PDs for the cure rate.

Grouping of financial assets measured on a collective basis

The portfolio comprises FOSA and BOSA facilities. The portfolio comprises a single segment on the basis that over 95% of the loan book comprises lending to employees of various non-governmental organizations in Kenya.

Probability of default (PD) estimation process

PD is modelled at a segment level and not at a customer or facility level. PDs are determined using a transition matrix approach by modelling movements of loans from one stage to the next over annual snapshots. The transition matrices are based on the value of loans transitioning. The data used to estimate PD is for five years from January 2018 to September 2023. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Exposure at default (EAD)

This is determined at a facility level. This is estimated assuming the exposure at the reporting date. No prepayments or top ups are considered in determining the EAD.

Loss given default (LGD)

LGD is modelled at customer level. The LGD calculation takes into account cash recoveries from customers' cash deposits and their respective guarantors. Time to recovery on cash deposits is assumed to be six months and therefore impact of discounting has been deemed immaterial.

NOTES (CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)
(I) CREDIT RISK (CONTINUED)

Significant increase in credit risk

The Society continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months' ECL or lifetime ECL, the Society assesses whether there has been a significant increase in credit risk since initial recognition. The Society considers an exposure to have significantly increased in credit risk when the borrower becomes between 1 to 30 days past due on contractual payments.

The amount that best represents the Society's maximum exposure to credit risk as at 31 December is made up of the following:

	2023 Shs'000	2022 Shs'000
Loans to members	8,582,636	6,927,368
Bank balances	178,101	270,550
Short term deposits with financial institutions	1,621,173	1,280,542
Investment in government securities – at amortised cost	231,389	623,000
Other receivables	24,413	10,507
	10,637,712	9,111,967

The Society's internal rating

The Society follows the regulator's grading to monitor the credit risk on loans to members, Normal and Watch represent loans and advances that are not impaired. Substandard, Doubtful and Loss refer to the impaired loans and advances that have been impaired as per the Society's credit policy. These represent the loans and advances that the Society cannot collect according to contractual terms of the loan agreements.

The amounts presented are gross of impairment allowances. Details of the Society's internal grading system are explained below and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 2(i).

The credit quality and the maximum exposure to credit risk based on the Society's internal credit rating system and year-end stage classification is presented in note 14.

NOTES (CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)
(I) CREDIT RISK (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Year ended 31 December 2023				
At start of year	6,131,751	664,329	429,854	7,225,934
New assets originated	4,505,726	414,225	92,671	5,012,622
Assets derecognised or repaid	(2,818,417)	(338,411)	(73,072)	(3,229,900)
Transfers to Stage 1	(378,059)	219,311	158,748	-
Transfers to Stage 2	18,888	(26,743)	7,855	-
Transfers to Stage 3	5,703	24,205	(29,908)	-
At end of year	7,465,592	956,916	586,148	9,008,656
Year ended 31 December 2022				
At start of year	5,492,067	457,693	415,956	6,365,716
New assets originated	4,327,313	657,051	111,165	5,095,529
Assets derecognised or repaid	(3,512,442)	(543,946)	(178,923)	(4,235,311)
Transfers to Stage 1	383,848	(272,172)	(111,676)	-
Transfers to Stage 2	(385,336)	442,394	(57,058)	-
Transfers to Stage 3	(173,699)	(76,691)	250,390	-
At end of year	6,131,751	664,329	429,854	7,225,934

NOTES(CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)
(I) CREDIT RISK (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 ECL Shs'000	Stage 2 ECL Shs'000	Stage 3 ECL Shs'000	Total Shs'000
At 1 January 2023	88,872	46,746	162,948	298,566
New assets originated	57,172	48,101	92,051	197,324
Assets derecognised or repaid	(31,384)	(18,713)	(19,773)	(69,870)
Transfers to Stage 1	(30,279)	18,619	11,660	-
Transfers to Stage 2	18,888	(26,743)	7,855	-
Transfers to Stage 3	5,703	24,205	(29,908)	-
At 31 December 2023	108,972	92,215	224,833	426,020
Year ended 31 December 2022				
At 1 January 2022	130,674	14,706	77,506	222,886
New assets originated	102,077	9,467	3,190	114,734
Assets derecognised or repaid	(27,562)	(6,434)	(5,058)	(39,054)
Transfers to Stage 1	130,450	(84,571)	(45,879)	-
Transfers to Stage 2	(118,854)	135,146	(16,292)	-
Transfers to Stage 3	(127,913)	(21,568)	149,481	-
At 31 December 2022	88,872	46,746	162,948	298,566

The Society holds collateral against loans and advances to employees taking development loans. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired. Collateral is generally not held over loans and advances to members other than the staff development loans.

An estimate of the fair value of collateral held against loans and advances is shown below:

	2023 Shs'000		2022 Shs'000
Cash and share guarantees	7,990,729		4,563,949
	Undiscounted Value	Discounted Value	
Collaterals held	3,526,986	2,162,784	1,306,281
	11,517,715		5,870,230

The loss allowance for bank balances was assessed using the 12 months expected credit loss model which is based on external ratings for the financial institutions. The loss allowance was not material to these financial statements. The loss allowance for other receivables was assessed using the lifetime ECL model. The loss allowance was not material to these financial statements.

NOTES(CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation.

Exposure to liquidity risk

The key measure used by the Society for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

The table below summarises the maturity analysis for financial assets and financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

Year ended 31 December 2023	0-3 Months Shs'000	3-12 Months Shs'000	1 – 5 years	Over 5 Years Shs'000	Total Shs'000
Financial assets					
Loans to members	3,773,274	1,634,720	5,658,319	2,044,364	13,110,677
Cash and bank balances	178,101	-	-	-	178,101
Short term deposits	1,621,173	-	-	-	1,621,173
Investment in government securities	-	-	-	487,740	487,740
Total assets	5,572,548	1,634,720	5,658,319	2,532,104	15,397,691
Financial liabilities					
Non withdrawable deposits and other member savings	3,357,232	2,238,156	2,190,105	2,295,816	10,081,309
Other liabilities and accrued expenses	262,422	113,691	393,523	131,574	901,210
Total liabilities	3,619,654	2,351,847	2,583,628	2,427,390	10,982,519
Liquidity gap	1,952,894	(717,127)	3,074,691	104,714	4,415,172

NOTES(CONTINUED)
23 FINANCIAL RISK MANAGEMENT (CONTINUED)
(I) LIQUIDITY RISK (CONTINUED)

Year ended 31 December 2022	0-3 Months Shs'000	3-12 Months Shs'000	1 – 5 years	Over 5 Years Shs'000	Total Shs'000
Financial assets					
Loans to members	3,421,652	1,482,384	5,131,034	1,853,855	11,888,925
Cash and bank balances	270,550	-	-	-	270,550
Short term deposits	1,280,542	-	-	-	1,280,542
Investment in government securities	-	412,874	-	550,000	962,874
Total assets	4,972,744	1,895,258	5,131,034	2,403,855	14,402,891
Financial liabilities					
Non withdrawable deposits and other member savings	2,506,870	1,793,534	3,260,969	2,173,980	9,735,353
Other liabilities and accrued expenses	841,698	-	-	-	841,698
Total liabilities	3,348,568	1,793,534	3,260,969	2,173,980	10,577,051
Liquidity gap	1,624,176	101,724	1,870,065	229,875	3,825,840

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the fair values or future cash flows of the Society's financial instruments. Financial instruments affected by market risks include loans to members, borrowings, cash and cash equivalents, deposits and equity instruments at FVOCI. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Society manages and monitors market risks based on sensitivity analysis.

Equity price risk

The Society is exposed to equity securities price risk as it holds equity investments listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Society has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Society's price risk arising from its investments in equity securities.

If equity market indices had increased/ decreased by 10%, with all other variables held constant, and all the Society's equity investments moving according to the historical correlation with the index, other comprehensive income for the year and fair value reserve in equity would increase/decrease by Shs 1,829,952 (2022: Shs 2,101,000).

Interest rate risk

The Society is exposed to risk associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The Finance and administration committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. Interest rates on advances to customers and other risk assets are pegged to the Society's lending rates which are fixed.

The primary risk for the Society arises from the timing differences in maturities between the fixed interest rate bearing financial instruments. As at 31 December 2023 (2022: Nil), the Society does not carry a reprising risk because it was not holding any instruments with a floating rate.

NOTES (CONTINUED)
FINANCIAL RISK MANAGEMENT (CONTINUED)
(III) MARKET RISK (CONTINUED)

The table below presents the Society's interest-bearing instruments in their respective maturity buckets.

	0-3 months Shs'000	3-12 Months Shs'000	More than 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
31 December 2023					
Assets					
Cash and Bank	-	-	-	178,101	178,101
Short term deposits	1,621,173	-	-	-	1,621,173
Investment in government securities	-	-	231 ,389	-	231,389
Loans to members	2,860,878	1,907,253	3,814,505	-	8,582,636
Total	4,482,051	1,907,253	4,045,894	178,101	10,613,299
Liabilities					
Members Deposits	2,797,695	1,909,835	3,685,554	-	8,393,084
Interest sensitivity gap	1,684,356	(2,582)	360,340	178,101	2,220,215

31 December 2022	Less than 1 month Shs'000	3-12 Months Shs'000	More than 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
Assets					
Cash and bank	-	-	-	270,550	270,550
Short term deposits	1,280,542	-	-	-	1,280,542
Investment in government securities	-	403,000	220,000	-	623,000
Loans to members	3,363,699	1,182,535	2,381,134	-	6,927,368
	4,644,241	1,585,535	2,601,134	270,550	9,101,460
Liabilities					
Members Deposits	2,445,727	1,630,485	3,260,969	-	7,337,181
Interest sensitivity gap	2,198,514	(44,950)	(659,835)	270,550	1,764,279

NOTES (CONTINUED)
23 FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)
(V) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The table below sets out the Society's classification of financial assets and liabilities, and their fair values:

	At amortised cost Shs'000	At Fair value through OCI Shs'000	Total Shs'000	Fair value Shs'000
Year ended 31 December 2023				
Assets				
Cash and bank balances	178,101	-	178,101	178,101
Short term deposits	1,621,173	-	1,621,173	1,621,173
Loans and advances	8,582,636	-	8,582,636	8,582,636
Investment in government securities	231,389	-	231,389	231,389
Other receivables	30,371	-	30,371	30,371
Quoted equity investments	-	16,418	16,418	16,418
Unquoted equity investments	-	1,882	1,882	1,882
	10,643,670	18,300	10,661,970	10,661,970
Liabilities				
Members' deposits	7,990,739	-	7,990,739	7,990,739
Other liabilities	901,210	-	901,210	901,210
Member's savings and other deposits	402,345	-	402,345	402,345
	9,294,294	-	9,294,294	9,294,294
Year ended 31 December 2022				
Assets				
Cash and bank balances	270,550	-	270,550	270,550
Short term deposits	1,280,542	-	1,280,542	1,280,542
Loans and advances	6,927,368	-	6,927,368	6,927,368
Other receivables	623,000	-	623,000	623,000
Investment in government securities	24,010	-	24,010	24,010
Quoted equity investments	-	2,066	2,066	2,066
Unquoted equity investments	-	18,944	18,944	18,944
	9,125,470	21,010	9,146,480	9,146,480
Liabilities				
Members' deposits	7,337,180	-	7,337,180	7,337,180
Other liabilities	841,698	-	841,698	841,698
Member's savings and other deposits	402,345	-	402,345	402,345
	8,581,223	-	8,581,223	8,581,223

NOTES (CONTINUED)
23 FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)
(V) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the society's assets and liabilities. The different levels have been defined as follows:

- Level 1 – use quoted prices in active markets for identical assets or liabilities;
- Level 2 – use inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly; and
- Level 3 – use inputs for the asset or liability that are not based on observable market data such as internal models or other valuation methods.

	Quoted Prices in active markets Level 1 Shs'000	Significant observable inputs Level 2 Shs'000	Significant unobservable inputs Level 3 Shs'000	Totals Shs'000
At 31 December 2023				
Quoted equity investments	1,882	-	-	1,882
Unquoted equity investments	-	16,418	-	16,418
Investment property	-	-	107,000	107,000
	1,882	16,418	107,000	125,300
At 31 December 2022				
Quoted equity investments	2,066	-	-	2,066
Unquoted equity investments	-	18,943	-	18,944
Investment property	-	-	-	-
	2,066	18,943	-	21,010

Description of valuation techniques used and key inputs to valuation of financial instruments:

Type of Financial Instrument	Valuation technique	Significant observable inputs
Investments – unquoted equity shares	Recent transaction price	Recent transactions of identical financial assets
Investment property	Comparable approach	The best price that can be obtained by the property being vaued

NOTES (CONTINUED)

24 Capital management

The Co-operative Societies Act (the "Act") sets and monitors capital requirements for the Society as a whole. The requirements are outlined in the Society's by-laws which comply with the requirements of the Co-operatives Societies Act.

The Society's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To have sufficient capital to support its development mandate;
- To safeguard the Society's ability to continue as a going concern so that it can continue to provide returns for members and other stakeholders; and,
- To maintain a strong capital base to support the development of the Society.

In implementing current capital requirements, By-laws of the Society require the Society to maintain a statutory reserve as required by the Act and Rules. The statutory reserve shall be credited with 20% of net surplus of each financial year.

The primary objectives of the Society's capital management policy are to ensure that the Society complies with externally imposed capital requirements and maintains healthy capital ratios to support its business. The Society has not complied with all externally imposed capital requirements, specifically, the Institutional capital as disclosed below.

The Society's capital position as at 31 December was as follows:

	2023 Shs'000	2022 Shs'000
Share capital (Note 22)	687,232	570,035
Reserves (Note 21)	975,540	706,012
Proposed dividends	103,085	85,505
	1,765,857	1,361,552

Key Ratios	Statutory Requirement %	2023 %	2022 %
Capital adequacy ratios			
Core capital/total assets	10%**	11.4%	11.2%
Core capital/members deposits	8%**	16.0%	15.3%
Institutional capital/total assets	8%**	5.3%	5.3%

NOTES (CONTINUED)

25 Operating lease commitments

The directors have assessed that the Society did not have material operating lease commitments (2022: Nil).

26 Related party transactions

The Society is established under the Sacco Societies Act. Its related parties include Directors, staff and any entities with common directorship.

Compensation of key management personnel

Key management personnel include all the Directors and Senior Management who are referred to as heads of departments.

	2023 Shs'000	2022 Shs'000
Salaries and other benefits		
Salaries	89,101	86,738
Other benefits	28,871	26,127
	117,972	112,865
Board of directors' sitting allowance	9,502	10,269

Loans to Directors and Staff

At 31 December 2023, total loan balances to staff amounted to Shs 94 million (2022: Shs 101 million) secured by non-withdrawable deposits of members, guarantors, with interest depending on the type of loan.

Loan balances outstanding from Board members at year-end totalled Shs 50 million (2022: 44 million). The loans to employees and directors are not impaired.

Loans to directors

	2023 Shs'000	2022 Shs'000
At 1 January	43,961	45,141
Net movement in the year	6,080	(1,180)
At 31 December	50,041	43,961

NOTES (CONTINUED)

26 RELATED PARTY TRANSACTIONS (CONTINUED)

	2023 Shs'000	2022 Shs'000
Directors' deposits		
At 1 January	19,800	17,381
Net movement in the year	3,127	2,419
At 31 December	22,927	19,800
Directors' compensation:		
Allowances	9,502	10,269
Honorarium	10,454	8,527
	19,956	18,796
Staff loans:		
At 1 January	101,078	106,137
Net change in the year	(6,641)	(5,059)
At 31 December	94,437	101,078
Staff deposits:		
At 1 January	18,387	17,779
Net change in the year	(2,034)	608
At 31 December	16,353	18,387

27 Events after the reporting period

The directors are not aware of any events after the reporting date that require adjustments to, or disclosure in, the financial statements as at the date of this report.

28 Capital commitments

The Society did not have any commitments not recognized related to capital expenditure at the end of the reporting period (2022: Nil).

RESOLUTIONS
FOR THE 39TH ANNUAL GENERAL MEETING
23RD MARCH 2024

The Board requests the SACCO members to approve the following resolutions:

1. Borrowing Powers

The Board seeks to maintain Borrowing Powers at Kshs.600million which is within 25% of the Society's assets as at 31st December 2023. (As provided in the Society's by-law no. 30).

2. Distribution of Surplus

The board proposes to dispose the surplus for 2023 as follows:

i. Payment of 15% dividends on members share capital as at 31st December 2023 (Kshs.103 million).
ii. Transfer 20% of the net surplus after taxation to the statutory reserves (Kshs.70.3 million).
iii. Transfer 5% of the net surplus after taxation to the general reserves (Kshs.14 million).
iv. Payment of honorarium to the Board and Supervisory Committee amounting to Kshs.10.6million.
v. Payment of staff bonus amounting to Kshs.12.7million.

3. Payment of Interest on Members Deposits

The board proposes to pay interest on members' deposits as at 31st December 2023 at a rate of 9.2% (Ksh.646 million).

4. Approval of the Revised 2024 budget and proposed 2025 budget

5. Appointment of Auditors for year 2024

6. Approval of Amendments to the By-Laws

7. Write off Bad uncollectible Loans as per the SACCO policy and audit recommendations.

8. Approval of Delegates System of Governance

9. Approval of Board Compensation Policy

NOTES

KIMISITU SACCO LTD.
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