KIMISITU
SACCO LTD.
Your Partner to Prosperity

ANNUAL REPORT & FINANCIAL STATEMENTS 2018

KIMISITU
SACCO LTD.
Your Partner to Prosperity

Vision

"The personal financial solutions provider of choice"

Mission

To empower members economically by providing quality financial services through prudent mobilization of resources and excellent customer care.

Core Values

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

- Professionalism
- Respect
- Equality
- Commitment
- Transparency and accountability
- Integrity
- Customer focus
- Equity

MOTTO:

"Your partner to prosperity"

KIMISITU SACCO LTD.
Your Partner to Prosperity

Kimisitu Plaza, Woodlands Road, opposite IFRC
P.O. Box 10454-00100, Nairobi, Kenya
Tel: + 254 020 2733601/3, + 254 0724 310 626
0714 611495 | 0735 000012 | 0731 000196
Emails: info@kimisitusacco.or.ke
customercare@kimisitusacco.or.ke
finance@kimisitusacco.or.ke
loans@kimisitusacco.or.ke
Website:www.kimisitusacco.or.ke

NOTICE OF THE 34TH ANNUAL GENERAL MEETING

TO ALL MEMBERS OF KIMISITU SACCO SOCIETY LIMITED

Notice is hereby given that the 34th Kimisitu Sacco Society's Annual General Meeting for the year ended 31st December 2018 will be held on **Saturday 2nd, March 2019 at All Saints Cathedral – Plenary Hall** located on Kenyatta Avenue Road opposite Serena Hotel commencing at 8.00 a.m.

AGENDA

1. Notice of the 34th Annual General Meeting & Adoption of Agenda
2. Confirmation of Minutes of the 33rd Annual General Meeting held on March 17th, 2018 (Copy Attached)
3. Chairman's Report
4. Report of the Supervisory Committee
5. Presentation of the 2018 Audited Financial statements here called Statement for Profit or Loss and other Comprehensive Income & Statement of Financial Position (Attached with detailed statements made available on the web portal)
6. Presentation of Year 2020 Budget & Amendments to Year 2019 Budget
7. Disposal of Surplus
8. Appointment of 2019 Auditors
9. AGM Resolutions (itemized Resolutions available on the web portal)
10. Elections
11. Any Other Business (AOBs should be mailed to the ceo@kimisitusacco.or.ke not later than Friday 22nd February 2019 for them to be discussed at the AGM.

Please note that the AGM notice and other necessary documents can be accessed from the Kimisitu Sacco Web Portal (www.https://portal@kimisitusacco.or.ke)

BY ORDER OF THE BOARD

EVALINE OCHIENG
HON. SECRETARY

DATE: FEBRUARY 15th ,2019

KIMISITU SACCO AGM PROGRAMME – SATURDAY 2ND MARCH 2019

8.00 AM	-	Arrival and Registration
8.30 AM	-	Opening Prayers
8.40 AM	-	Introduction of Board, Supervisory Committee and Secretariat Members
8.50 AM	-	Reading of the Notice of the 34th AGM & adoption of agenda
9.00 AM	-	Confirmation of previous minutes & Update on Matters Arising
9.30 AM	-	Chairperson's Report
10.00 AM	-	Guest of Honour's Speech
10.30 AM	-	Supervisory Committee Report
11.00 AM	-	Presentation of Audited Accounts as at 31st Dec 2018 & Auditors Report
11.30 AM	-	Budget Proposal 2020 & Amendments to Year 2019 Budget
12.00 noon	-	Appointment of 2019 Auditors
12.15 PM	-	Disposal of Surplus
12.30 PM	-	AGM Resolutions
1.00 PM	-	Elections
2.00 PM	-	Vote of thanks
2.15 PM	-	Closing Prayer

Members leave at their own pleasure

CONTENTS

CORPORATE INFORMATION

Board Members	:	Phillip Isaac Oyuko	Chairperson
	:	Dorobin Agoti	Vice Chairperson
	:	Johnson Bor	Treasurer (Deceased - 30th Nov. 2018)
	:	Evaline Ochieng	Hon. Secretary
	:	Janerose Mwangi	Director
	:	Isaac Ochieng	Director
	:	CPA June Nduku Kivinda	Director
	:	Peter Kirimi Mutugi	Director
	:	Agunga Chris Duncan	Director
	:	Florence Oile	(Retired in March 2018)
	:	CPA Jotham Opiyo	(Retired in March 2018)
	:	CPA Caroline Karanja	(Retired in March 2018)
	:	Stephen Williamson Nyambuka	(Retired in March 2018)
Supervisory Committee	:	Collins Bonyo	Chairman
	:	Nicholas Odhiambo	Secretary
	:	Amos Atuya	Member
Registered Office	:	Woodlands Road, Kilimani	
	:	LR No 209/1705/4	
	:	P.O. Box 10454-00100	
	:	Telephone: +254 202 733 601	
	:	Cell +254 724 310 626, +254 735 000 012	
	:	Nairobi	
	:	Email:info@kimisitusacco.or.ke	
	:	Website: http//www.kimisitusacco.or.ke	
Principal Bankers	:	**Commercial Bank of Africa Kenya Limited**	
	:	Mamlaka Road Branch	
	:	P.O. Box 30437-00100	
	:	Nairobi	
	:	**Cooperative Bank of Kenya Limited**	
	:	Nairobi Business Centre Branch	
	:	P.O. Box 46773-00100	
	:	Nairobi	
	:	NIC Bank Limited	
	:	Junction Branch	
	:	P.O. Box 44599-00100	
	:	Nairobi	
Independent Auditors	:	Omanwa & Associates	
	:	Certified Public Accountants (K)	
	:	Commerce House, 4th Floor, Wing A, Moi Avenue	
	:	P.O. Box 64447-00620	
	:	Nairobi	
Interim Chief Executive Officer	:	CPA Catherine Achieng Odhiambo	
	:	P.O. Box 10454-00100	
	:	Nairobi	
	:	Email: ceo@kimisitusacco.or.ke	

BOARD OF DIRECTORS

Phillip Oyuko
Chairperson

Dorobin Agoti
Vice-Chair

Evaline Ochieng
Hon. Secretary

Late Johnson Bor
Treasurer

June Nduku Kivinda
Chair Credit Committee

Agunga Chris Duncan
Chair ARM Committee

Janerose Mwangi
BDE Committee

Peter Kirimi Mutugi
BDE Committee

Isaac Ochieng
Credit Committee

SUPERVISORY COMMITTEE

Collins Bonyo
Chairman Supervisory Committee

Nicholas Odhiambo
Secretary Supervisory Committee

Amos Atuya
Supervisory Committee Member

MANAGEMENT STAFF

Catherine Odhiambo
Interim Chief Executive Officer

Purity Ntoiti
Finance Manager

Nancy Gatwiri Mugo
Ag. Credit Manager

Edith Kipsang
ICT Manager

Tobias Achieng'a Opany
Snr. Procurement Officer

Geoffrey Makokha
Internal Audit Manager

Irene Katumo
Marketing Manager

Winnie G. Njoroge
HR & Admin Manager

STAFF MEMBERS

CHAIR'S REPORT 2018

On behalf of the Board of Directors I have great pleasure to welcome our Guest of Honour, invited guests, our dear members, Ladies and Gentlemen to our 34th Annual General Meeting of Kimisitu Sacco Society Limited.

We thank the Almighty God for the opportunity to be present today to review our Society's performance and chart the way forward.

I would like to extend my deepest appreciation for your commitment to our Sacco and presence in today's auspicious occasion, thank you.

The National Economy and Business Environment in 2018

Kenya has made significant political, structural and economic reforms that have largely driven sustained economic growth, social development and political gains over the past decade. However, its key development challenges still include poverty, inequality, climate change and the vulnerability of the economy to both internal and external factors.

The government Big Four economic plan introduced in 2017, focuses on Manufacturing, Universal Healthcare, Affordable Housing and Food & Nutrition Security. Kimisitu Sacco through Makao Halisi Loan is on the fore front to actualize affordable housing to its members. Please partake of the product.

Review of the SACCO Sector Performance

2017 - 2016 performance for the SASRA regulated Saccos against Kimisitu Sacco

PARAMETER	2017	2016	Kimisitu 2017	Kimisitu 2016
Number of DT-SACCOS	174	176		
Active Membership	3,116,674	3,143,485	7,238	6,325
Dormant Membership	482,526	489,112	1,228	1,068
Total Membership	3,599,200	3,632,597	13,573	12,324
FINANCIALS	**KSHS.**	**KSHS.**	**KSHS.**	**KSHS.**
Total Assets (Kshs. Millions)	442,277	393,499	5,154	4,355
Total Deposits (Kshs. Millions)	305,305	272,579	4,146	3,541
Gross Loans (Kshs. Millions)	331,212	297,604	4,326	3,989
Capital Reserve (Kshs. Millions)	72,328	61,261	444	385
Core Capital (Kshs. Millions)	64,254	54,943	412	355

The total assets portfolio amounting to Kshs 442.27 Billion within the DT-SACCO (Deposit Taking Saccos) sector during the year 2017 was principally composed of loans which amounted to Kshs 320.49 Billion representing 72.46% of the total assets portfolio. This was however a marginal decrease from the 73.42% of the total assets registered in 2016 which constituted the loan assets as show in table above; but still underscores the fact that loans remain the core asset and thus business activity of SACCO Societies.

Review of Kimisitu SACCO 2018 Performance

I am pleased to report that the Sacco's performance in 2018, was quite impressive where the Sacco posted a turnover of Kshs. 705.3 Million which was an increase of 13%, compared to 623.4 million in the year 2017.

Deposits: Members deposits grew by 14% to Kshs. 4.7 Billion in 2018 from Ksh.4.1 Billion in 2017. However, this growth was slightly lower than the loans growth, we therefore encourage our members to increase their monthly deposit contribution.

Loans: Loans to members grew by 11% to Kshs.4.8 Billion from 4.3 Billion. The growth has been attributed to improved loan processes.

New Product: As promised in the last AGM, It Is my pleasure to inform you that **M-Kimisitu** was introduced in May 2018 and is on its growth stage. The introduction of the **Online Loan Application** currently on pilot process on selected products is expected to improve the loan turnaround time as we roll it out to all products in the 2nd quarter of the year.

Turnover and Profitability: The Society's financial year closed with an outstanding performance of Ksh.705 million in 2018 from Kshs.623 million in 2017, the Sacco turnover grew by 13% when compared to 2017.

Membership: The Sacco membership suffered a major blow due to project closures from the various member organizations leading to withdrawals in the year, we however achieved a net growth of 1% to close at 7,342 up from 7,238.

A total of 11 new organizations joined membership of Kimisitu Sacco. Kindly join me in welcoming members from these organizations who are attending their first AGM. We also recognize new members from existing organizations.

Portfolio at Risk: The loans in default stood at Kshs. 127.8 Million from Ksh.117.2million; 2.37% of total loan book which was a decrease when compared to 2.7% in 2017.

Total Assets: Total assets grew by 16.5% to Ksh.6.05 Billion from Kshs. 5.15 Billion in 2017. Kimisitu Sacco continues to be proudly positioned as a tier one Sacco after attaining the 6 Billion assets mark.

Capital ratios: The Society's Core Capital stood at 10% from 8% while Institutional Capital stood at 7% from 5% compared to the prudential requirement of 10% for core capital and 8% institutional capital. The Society Share Capital grew from Kshs. 129.1 million to Kshs.213.1 million through the shares drive. I am happy to announce that we now have doubled the number of members to 641 members from 275 members who have attained Kshs. 30,000 share capital threshold maximum in 2017. Members are encouraged to allow plough back their dividends and interest on share capital to attain the required share capital.

Review of Operations and Management

Staff Capacity

The board made some changes in the senior management team. The positions were filled competitively, to help achieve the long-term growth and stability of the Sacco. The board has engaged a recruitment firm to fill in the position of the Chief Executive Officer and the process is expected to close in the first quarter of the year.

ICT Projects

Today, business settings have changed along with the improvement of knowledge-based economy and information communication Technology (ICT) has become the vital component of organizational productivity. It is in this realization that we have undertaken a number of projects in ensuring the Sacco has the prerequisite systems that can drive our business strategy. The projects are as follows:

1. Network security to enhance the security of our systems.
2. Business Continuity programme was implemented with an offsite active Disaster Recovery Plan in the event of disaster, the Sacco operations will not be affected or paralysed in case of an eventuality.
3. Corporate governance: - the society has adopted and embraced new and up to date technology by acquiring an e-board system to help in effective management of board meetings and collaborations.
4. The Society has developed a Cyber security awareness strategy to help in handling risks and

threats associated with cyber security. The Information Security Strategy will be in compliance with regulatory, statutory, contractual and policies requirements and shall be enforced by using technical controls, system audits and Sacco wide awareness training.

Members Events and other Activities:

The Sacco engaged members in various activities in the year 2018. Ushirika Day was celebrated in Nairobi and Kisumu Counties in July 2018. The Sacco prides itself on the trophies it has always been awarded because of you our member. On that note we managed to scoop the below awards as a tier one Sacco;

1) 3rd position Most Efficient Sacco
2) 3rd position Best in Savings
3) 2nd position highest members attendance for the Nairobi Ushirika day celebrations.

Little Angels Fun day in 2018 had the highest attendance since its inception whereby both parents and children were educated on the importance of saving as well had fun apart from incidents which occurred leading to some casualties, we are glad to report that all those affected were treated and recovered well and appreciate the co-operation from members.

In a bid to reach to our members, the marketing team deployed robust marketing strategy as highlighted below

- Coast region county marketing (Mombasa, Ukunda, Kwale and Kilifi) which culminated into the first Mombasa member education.
- Western region (Kisumu, Homabay and Siaya) which culminated into the first Ushirika day in Kisumu.

We look forward into visiting the other regions where we have our footprints forge better relationships as we recruit new members.

Governance and Training:

The tremendous growth of the Sacco has been driven by good corporate governance practices that has been consistent over the years. The new members of the board were able to undertake the corporate governance training programme approved by SASRA and are now certified Sacco Directors. We have achieved sound management and operations of the Sacco through excellent performance as witnessed over the years.
In order to build capacity, the board and staff attended various trainings that were considered of value to the Society. The Society also continues to recruit qualified staff competitively.

Demise of a Director:

It is with sadness that I report that in 2018, Director Johnson Bor fondly referred to as "JB" lost a brave battle to cancer during his treatment in India. JB was diagnosed with Stomach Cancer early 2017, which he bravely fought until Friday 30th November 2018, at the Seven Hills Hospital in Mumbai when he succumbed.

Ongoing Projects

The Kimisitu Sacco 2016 - 2020 strategic plan is embedded on four major pillars which are Financial, Customer, Internal business processes and learning & growth.

We are committed to achieve 100 percent customer satisfaction and customer experience on service delivery to our members. The Sacco is in the process of implementing a Customer Relationship Management System in line with our strategy. The CRM will assist the management to be effective on email and calls in order to help Sacco focus on customer relationship and interactions. The customer relationship management system (CRM) will be integrated with call centre and Electronic Data Management System (EDMS) to help customers in getting information easily and readily thus improve on efficiency as well escalation of matters on the system thus follow up on issues from members to closure. The CRM will help Sacco to have a holistic view of our customer relationships with centralized information enabling the secretariat to serve our members from a single point of contact.

In order to achieve and attain system/process efficiency of 100 percent we are currently in the process of implementing an Electronic Document Management System (EDMS) which will enable the Sacco improve on internal business processes. The benefits of EDMS system to the Sacco is, fast and efficient electronic access to physical documents, the correspondence associated with the loan processing as well as improved turnaround time for members loan processing. These benefits will greatly reduce the time and manpower currently spent manually printing hard copy loan documents and also clean up all data to ensure digitization of all the existing member records. Kimisitu is geared to becoming a paperless society. With fully automated processes, members will be able to access all our product and services online, more efficiently and effectively. Our goal is that all loans should be processed and disbursed in one business day.

The strategic plan provides for developing a plaza that will accommodate Sacco growth in customers and staff. One of the Sacco's strengths is ownership of a building in a prime area that is located at Woodlands Road – Kilimani area near the city and thus is easily accessible by members. This plot has a building that was initially residential and which the Sacco has been using as offices. As the Sacco grows, the office space and parking lots for both staff and customers have become inadequate. There is therefore need for the Sacco to consider renting/purchasing of office space to accommodate our staff as we lay down plans of financing and building of the plaza.

Future Developments

In order for the Sacco to be regulated by SASRA, the Sacco must be providing front office Services (FOSA), Kimisitu Sacco is one of the few Saccos under tier one which is not regulated by SASRA. FOSA will enable the Sacco to expand its products and services to members, and generate more revenue guaranteeing good returns. It is our sincere hope that our members would approve FOSA for the Sacco to move to the next level.

Departed Members

In 2018 thirteen (13) of our members namely: James C.O. Okello (IND), Christine Tamnai Wachira (IND), Stephen Kipkener Kotutwa (EACC), Rosalind Wanja Ndoro (DEVALT), Elizabeth Kanda (Samaritan Pulse), Miriam Wangari Waweru (FTC), Moses Njenga Njuguna (NSAEA), Tabla Shirandula (IOM), Caren Achieng Omolo (EGP), Johnson Kimutai Bor (AGRA), Hussein Owino Ramathani (NOSET), Whim Manogo Onzere (IND), and Gerishom Ndungu Kamindu (SOCATT K) passed on. I request that we observe one-minute silence in their honour. It is important to note that we have CIC insurance funeral cover rider for members last expense at Ksh.100,000.

In closing, I would like to thank the Board and Secretariat for their concerted efforts, teamwork and support in the year 2018. Let me also take this opportunity to thank each one of you (members) for the support extended to our Board members and our great Society by patronizing the SACCO's products.

GOD BLESS YOU ALL

Philip Oyuko - Chairperson
Kimisitu Sacco Society Limited

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Members,

Our invited Guests, Directors, Esteemed Members, ladies and gentlemen. Welcome to our 34th Annual General Meeting for the financial year 2018.

Industry Trends

In the year 2018, Kenya's credit growth had stagnated at single digits, expanding by just 4.4% in the year. Growth in private sector lending had been constrained by the interest rate cap and persistently high non-performing loans.

Operational Efficiency

The Sacco total operational expenditure were within 21% of the total revenue whereas interest on members deposits covered 64.2% of the total revenue, compared to 56.9% in 2017. It is our aim to increase the return to our members through prudent utilization of resources.

The total loan delinquency reduced from 2.7% in 2017 to 2.37% in 2018. This is within the market rate of 5% however it is our intention to reduce it further to below 2% in the coming years.

The Sacco liquidity rate has grown from 16% in 2017 to 21.9% in 2018, this means that the members are not taking up loans and hence the Sacco is investing high amounts in banks. In 2018 the Society performed below target by 16.2% in loan uptake after disbursing Kshs.2.88 Billion against a target of Ksh.3.4Billion.

It is in this regard that we urge our members to take up loans from the Sacco, note that the interest paid towards the Sacco loan, is income which will be paid back to you in form of interest on deposits.

Service delivery

As the Sacco moves towards embracing paperless office operations, we urge you members to fill indemnity forms to allow you apply and guarantee loans online. This is to reduce the time taken by a member to submit loan forms in the office for processing. Our goal is to bring quality services to your doorsteps and provide customized solutions to your financial needs including members in the diaspora.

We also remind our members to partake our very own mobile loan product i.e M-Kimisitu, we are in the process of increasing the limit from the current Kshs. 30,000 to Kshs. 60,000 payable in 3 months. We appreciate those who have already embraced this product.

Staff Capacity

The growth and development of our Sacco is highly dependent on manpower skills. We are committed to enhancing staff capacity through training and constructive feedback to team.

In 2018 the Sacco recruited five (5) new staff. Three (3) Direct sales representatives to focus on recruiting new members and selling loan products. Two Debt recovery assistants were hired to enhance communication and follow up of loans in arrears and default.

We are committed to the principals of good governance and best management practices in our operations in accordance to the laws of the land.

Branding

Considering the current volume of business transaction and the potential for the Sacco to grow it is vital we put in place efficient measures to increase the visibility of our Sacco as key part of our marketing strategy. The Sacco invested in outdoor advertising as well as shot a documentary which will be placed on our website. Brand visibility strategies will broaden our base, solidify the market position and increase returns to our members. These initiatives are expected to enhance successful recruitment of more members leading to society growth. It is our goal to gain significant presence in all NGO's, International organisations, embassies and reputable organizations.

International Financial Reporting Standard 9

I am pleased to announce that the Sacco was able to fully comply with IFRS 9 in the Year 2018, the results were favourable, leading to low loan loss provisions. In order for us to reduce the provisions, we encourage our member to make timely loan payments and also where possible use collaterals as security for their loans.

Quality Management Process

As management, we remain steadfast to customer satisfaction through quality of our products. The ISO certification process is in its final stages, we have reviewed the standard operating procedures to ensure our processes remain current and relevant in the evolving business environment. In the long run, there is positive impact on revenue, quality, costs and customer satisfaction.

New Developments

This year, Kimisitu Sacco focused its energy on customer satisfaction by initiating implementation of key systems among them being Customer Relationship Management (CRM) and Electronic Document Management System (EDMS). This are not only important milestones for Kimisitu Sacco but also for our members, judging by the ever-increasing demands. I strongly believe these investments will increase our efficiency in loan processing, excellent customer-care and new member prospecting.

Future Outlook

Honourable Members, the future of the Sacco looks bright and Kimisitu Sacco requires your support and encouragement as the shareholders to help achieve our vision. We are committed to increasing the 'wealth' of our Members. Let us all continue to work smart to better the lives of all as service to our nation. Our vision is to be the personal financial solutions provider of choice. The quality, excellence and speed we attach to fulfilling this vision has resulted in an ever-increasing business demands.

We are currently positioning Kimisitu Sacco to attract and grow members. I hope the decisions passed here today will lead to the successful attainment of Strategy 2016-2020

We appreciate you, our members for giving us the opportunity to serve you and be "Your Partner to Prosperity.

God bless you all.

CATHERINE ODHIAMBO
INTERIM CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE STATEMENT

Overview

Corporate governance is the collection of mechanisms, processes and relations by which are controlled, and corporations directed. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs.

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices can be seen as attempts to align the interests of stakeholders

Effective corporate governance is critical for a stable Sacco sector and the economy as a whole given the huge role Sacco's play in the economic growth of country. Corporate governance in Sacco's entails complying with the seven cooperative principles i.e. voluntary and open membership; democratic member control; members economic participation; autonomy and independence; education, training and information; cooperation among cooperatives and concern for community.
Kimisitu Sacco Board is committed to transparency, professionalism and accountability in the management of the SACCO. The board has provided mechanisms of addressing member's interests adequately within a reasonable time while taking into consideration compliance with the relevant by-laws, policies and regulations. The Board has continued to review policies to take care of the changing business environment as well as embrace change in technology and will continue to do so for the benefit of the Sacco

Authority of the Sacco

The supreme authority of Kimisitu Sacco is vested in the annual general meeting of the members who elect the board of directors and the supervisory committee that are accountable to them during stakeholders and annual general meetings.

Board of Directors

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

Board Appointment

Election to the board is through a nomination process handled by a nomination committee leading to the general meeting where democratic elections are held to appoint the winning individuals to the board. 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 Certified public secretaries of Kenya (CPSK), one member from the Law Society of Kenya (LSK) one member from the commissioner of corporative movement and the CEO as Ex-officio.

Board & Supervisory Committee Charter

Kimisitu Sacco has a Board &Supervisory Committee Charter that has been in effect since 2014. The Charter sets out the governance frame work in conformity with the Sacco's by laws. The charter is critical and essential for the following reasons:

- It sets out the roles for the board and supervisory committee members
- It is an induction tool for new board members

Board Committees.

Kimisitu Board has established four (4) sub-committees to which it has delegated some of its responsibilities. The committees are normally constituted within seven (7) days after the elections of the board at the general meeting: These committees are;

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

(a) Finance & Administration Committee

The Finance & Administration Committee consist of four members including the Chair, the Vice Chair, Honorary Secretary and the Treasurer of the society. The Chief Executive Officer and the Finance Manager or any other officer appointed by the CEO serve as Ex-officio Members the mandate of this committee is to;

- ❖ Ensure that the Society has a solid Human Resource and Administration process, policies and procedure.
- ❖ Oversee the development and implementation of comprehensive policies and procedures encompassing all Finance, Investment, Assets Liability Management and Risk management matters.
- ❖ Review the Society's Annual Budgets, ensuring that these are in accordance with Institutional Strategy and recommending approval to the Board
- ❖ Monitor the Institution's financial performance vis-à-vis approved Budgets
- ❖ Approve payments. Payments are approved once a week by the FINAD whose members alternate (two each week). Amounts up to Ksh.1000,000 shall be processed by the CEO, the Finance Manager and one FINAD authorizer.
- ❖ Provide oversight over the Society financial risk management activities especially with regard to interest rate risk, liquidity risk, credit risk and capital risk, legal and regulatory risk.

(b) Credit Committee

The Credit Committee consist of three members of the Board but none of them is a member of the Finance and Administration committee. The credit manager or any other officer appointed by the CEO serves as an Ex-officio member, the credit committee has the following mandate.
The Credit Committee holds such meetings as the business of the Society may reasonably require, but not less frequently than once a month. The Credit Committee keep records of its actions and reports to the Board of Directors the duties and responsibilities of the Credit Committee are:

- ❖ To approve loans in line with Sacco's Loaning policy.
- ❖ Evaluate the adequacy of security offered for loans applied.
- ❖ To ratify loans up to Ksh.400,000 approved by the office Credit Committee.
- ❖ To the performance of the Sacco in loan disbursement and make recommendations to the Board on how to improve.
- ❖ To review the repayment of loans and defaulter recovery processes to ensure that Sacco funds are repaid/recovered on time.
- ❖ Evaluate the performance of Sacco's service providers in the loaning process. E.g. debt collectors, lawyers, valuers, etc.
- ❖ Any other duty necessary in the fulfilment of Sacco's objective of growing loans and ensuring timely repayments.

(c) Business Development & Education Committee:

The Business Development & Education Committee consist of three members of the Board. The Marketing Manager or any other Officer appointed by the CEO serve as Ex-officio member. The Vice-Chairman is normally the chairman of the Business Development and Education Committee. The committee elects its Secretary and member. The role of this committee entails;

- Coordination of the Business strategy and marketing of the Society;
- Assessing education needs of the members, training needs of all the staff of the society and training needs of the Board of Directors;
- Organizing education and training for members, staff and Board of Directors;

(d) Audit & Risk Management Committee

This Committee shall consist of three directors with appropriate expertise and financial acumen. The Internal Auditor shall be an Ex-officio member and the secretary to this committee. One of the members of this committee at the least shall be conversant with financial and accounting matters.
The Treasurer is the only member of the Finance and Administration Committee who shall be a member of the Audit and Risk Committee. He/she shall however not be the Chair of that Committee.

Supervisory Committee:

The Supervisory Committee is elected from the general membership for a 3-year term with one member retiring annually and consist of three members. The role of this committee is as set out in the Sacco's by laws sec

The table below shows the directors attendance of the board and subcommittee meetings during the year 2018

DIRECTORS MEETING ATTENDANCE IN 2018

DIRECTORS	COMMITTEE MEMBERSHIP/ ATTENDANCE	BOARD	JOINT BOARD	FINAD	BDE	CREDIT	ARM
PHILIP ISAAC OYUKO	Membership	✓	✓	✓			
	Attendance	8/8	7/7	15/17	N/A	N/A	N/A
DOROBIN NYAMWAYA AGOTI	Membership	✓	✓	✓	✓		
	Attendance	6/8	6/7	15/17	8/10	N/A	N/A
JOHNSON BOR (DECEASED)	Membership	✓	✓	✓			✓
	Attendance	4/8	6/7	14/17	N/A	N/A	7/10
EVALINE AKINYI OCHIENG	Membership	✓	✓	✓			
	Attendance	8/8	7/7	14/17	N/A	N/A	N/A
JANEROSE MWANGI	Membership	✓	✓		✓		✓
	Attendance	7/8	6/7	N/A	8/10	N/A	7/10
PETER KIRIMI MUTUGI	Membership	✓	✓		✓		
	Attendance	6/8	4/7	N/A	8/10	N/A	N/A
ISAAC OCHIENG	Membership	✓	✓			✓	
	Attendance	6/8	4/7	N/A	N/A	10/12	N/A
AGUNGA CHRIS DUNCAN	Membership	✓	✓			✓	✓
	Attendance	6/8	4/7	N/A	N/A	10/12	8/10
JUNE NDUKU KIVINDA	Membership	✓	✓			✓	
	Attendance	5/8	4/7	N/A	N/A	10/12	N/A

Key:
FINAD - Finance and Administration Committee
BDE - Business Development and Education Committee
ARM - Audit and Risk Management Committee

The following members retired from the board in 2018 having attended meetings as below

DIRECTORS	COMMITTEE MEMBERSHIP/ ATTENDANCE	BOARD	JOINT BOARD	FINAD	BDE	CREDIT	ARM
FLORENCE OILE	Membership	✓	✓	✓			
	Attendance	2/8	3/7	2/17	N/A	N/A	N/A
JOTHAM OPIYO	Membership	✓	✓	✓	✓		
	Attendance	2/8	3/7	2/17	2/10	N/A	N/A
CAROLINE KARANJA	Membership	✓	✓	✓			✓
	Attendance	2/8	3/7	2/17	N/A	N/A	1/10
STEPHEN W. NYAMBUKA	Membership	✓	✓	✓		✓	
	Attendance	2/8	3/7	2/17	N/A	2/12	N/A

The table below sets out the attendance of the supervisory and Joint board meeting for the supervisory committee members

DIRECTORS	COMMITTEE MEMBERSHIP/ ATTENDANCE	SUPERVISORY	JOINT BOARD
COLLINS JOEL BONYO	Membership	✓	✓
	Attendance	14/16	7/7
NICHOLAS ODHIAMBO OUMA	Membership	✓	✓
	Attendance	16/16	7/7
AMOS NYAKUNDI ATUYA	Membership	✓	✓
	Attendance	12/16	4/7

Senior Management

The Chief Executive Officer (CEO) reports directly to the Board and is responsible for the day to day operations of the Sacco, implementation of the boards approved plans to achieve the Sacco's objectives and reporting the results. The CEO attends all board and general meetings as Ex-officio.

The CEO is also responsible for all staff matters, code of conduct and compliance with the relevant Acts, Regulations, Rules and By-laws

The CEO is supported by senior management team which is responsible for the smooth running of the activities ensuring consistency with the Sacco strategy and policies as approved by the board.

Ms. Catherine Odhiambo was the Interim CEO, for the period running from September to December 2018.

Relationship with Stakeholders

The Board is committed to ensuring that the shareholders and regulators are provided with full and timely information about its performance, in this regard therefore the Board issues the Sacco magazine once in the year and is shared on the Sacco website and on web portal every September.
The AGM provides a useful opportunity for members' engagement and in particular for the Chairman to expound the Sacco's progress and respond to questions from the members.

Code of Ethics

At the core of the functions of the board, management and all staff levels is ethics and integrity. The Sacco has a code of ethics that govern relationships within and without the Sacco. The code highlights the minimum expected standards to be adhered to throughout all interactions.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kimisitu Sacco appreciates the importance of Corporate Social Responsibility and therefore embodies its commitment to the institution's social mandate with programs and activities that contribute to a better, safer and more progressive society

We make a difference in the communities in which we live and work. With our coined name (*Kilimo* and *Misitu*) Kimisitu recognizes a shared responsibility to protect our planet.

In the year under review, Kimisitu Sacco participated in initiatives anchored around conservation and economic empowerment:

Environmental Conservation
One of the key pillars in the CSR policy is on the environment and on this front the Sacco carried out tree planting at Kilgoris and maintains the forest to - date. Kimisitu Sacco staff and board members participated in re- afforestation of the Ngong Road Forest as well as at the Agricultural Society of Kenya (ASK) showground.

Economic Empowerment
Kimisitu Sacco was the main sponsor at the Kenya Paraplegic Organization dinner fundraiser for the physically challenged. The initiative will assist the organization in the nine counties they operate in to economically empower the lives of the physically challenged through provision of wheel chairs and integration to normal life to perform income generating activities.

KIMISITU KILGORIS FOREST

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31st December 2018.

Incorporation

The society is incorporated in Kenya under the Co-operative Societies Act, Cap 490 and is domiciled in Kenya.

Principal Activity

To empower members economically by providing quality financial services through prudent mobilization of resources and excellent customer care. This affords the members an opportunity for accumulating savings and thereby create a source of funds from which loans are made to members for provident and development purposes at fair and reasonable rate of interest.

Results

	2018	2017
	Kshs."000"	Kshs."000"
Surplus	107,880	59,528
Income tax expense	(10,147)	(4,876)
Net surplus	97,733	54,652
Interest on members' deposits	439,985	354,849

Dividend/Interest on Members Deposits

The Board of directors recommends payment of interest on members' deposits of 11% (2017,10%).

They also recommend dividend of 20% (25%,2017) on the shares held as at 31st December 2018, as set out in the strategic plan.

Board of Directors

The Board of Directors who served during the year and to the date of this report are as listed on page 5.

Auditor

The Society Auditor, Omanwa and Associates were appointed during the year in accordance with the provisions of the Co-operative Societies Act Cap 490. And have expressed their willingness to continue in office .

BY ORDER OF THE BOARD

....

Evaline Akinyi Ochieng

Hon.Secretary

13/02/2019

....................., 2019

Date

STATISTICAL INFORMATION FOR THE YEAR ENDED 31ST DECEMBER 2018

		2018	2017
Membership data		**Number**	**Number**
Active		7,342	7,238
Defaulters		803	752
Deceased		67	57
Non-active members		2,059	1,228
Exmembers		4,804	4,298
Total		15,075	13,573
Employees of the sacco		**35**	**30**
Financial Summary			
		2018	**2017**
		Kshs."000"	**Kshs."000"**
Share capital		213,154	129,145
Members' Deposits		4,742,891	4,146,792
Statutory reserve fund		78,657	59,111
Revenue Reserves		131,189	96,498
Investments		17,563	11,421
Assets		6,051,505	5,154,850
Current Assets		979,748	577,602
Current Liabilities		573,748	549,529
Loans to members		4,806,697	4,326,032
Shareholders' equity			
Turnover		705,372	623,435
Liabilities		5,391,797	4,710,180
Net surplus/(deficit)		107,880	59,528
Key Ratios			
	Statutory Requirement	**2018**	**2017**
	%	**%**	**%**
Capital Adequacy Ratios			
Core capital/total assets	10%**	10%	8%
Core capital/Members deposits	8%**	13%	10%
Institutional capital/total assets	8%**	7%	5%
Liquidity ratios			
Liquid assets /Total Deposi	15%**	22%	16%
Operational Efficiency ratios			
Total Expenses/Total Revenue		22%	21%
Interest on members deposits /Total Revenue		62%	57%
Total Deliquency Loans /Gross Loan portfolio		2.37%	2.63%
Return to members			
Interest on members deposits		11%	10%
Dividend on members shares		20%	25%

** Minimum Required

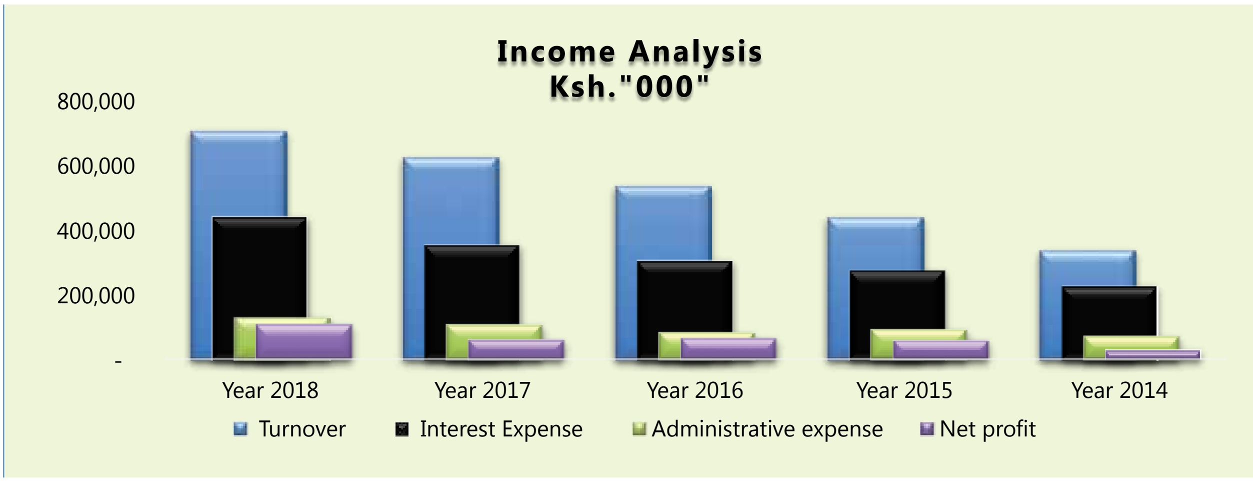
MANAGEMENT DISCUSSION AND ANALYSIS OF STATISTICAL INFORMATION

1. Income Statement Analysis

(a) The Sacco's total income increased by 13% (Ksh. 81.9M) from 623.4M in the year 2017 to close at Ksh. 705.3M in 2018. The growth has been driven largely by interest from members loans at 90.9% interest from banks 9%.

(b) Interest on members deposits expense increased by 24 % from Ksh.354.8M in the year 2017 to Ksh.439.9M in 2018.This accounts for 62% of the total turnover.

(c) Administrative expenses increased by 20% (Kshs.22M) to close at 129.9M up from 107.9M in 2017. This accounts for 18% of the total turnover

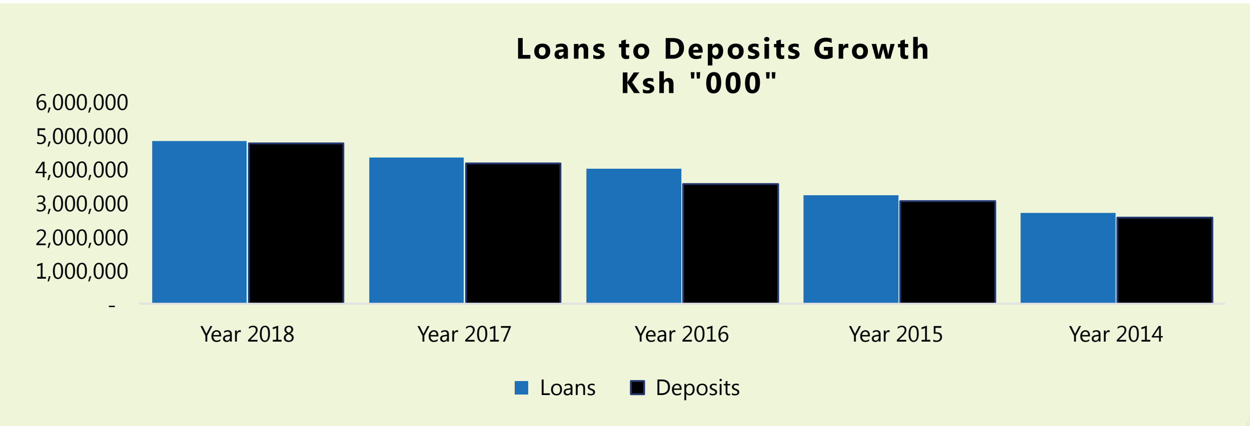


2. Growth in Loans Versus Deposits

(a)The Sacco's loan book grew by 11% from Ksh.4.3 billion in 2017 to Ksh. 4.8 billion in 2018. The growth is attributed to improved loan processes, introduction of M-Kimisitu and repackaging of loan products. The introduction of online loan application is expected to improve the growth further in the coming year.

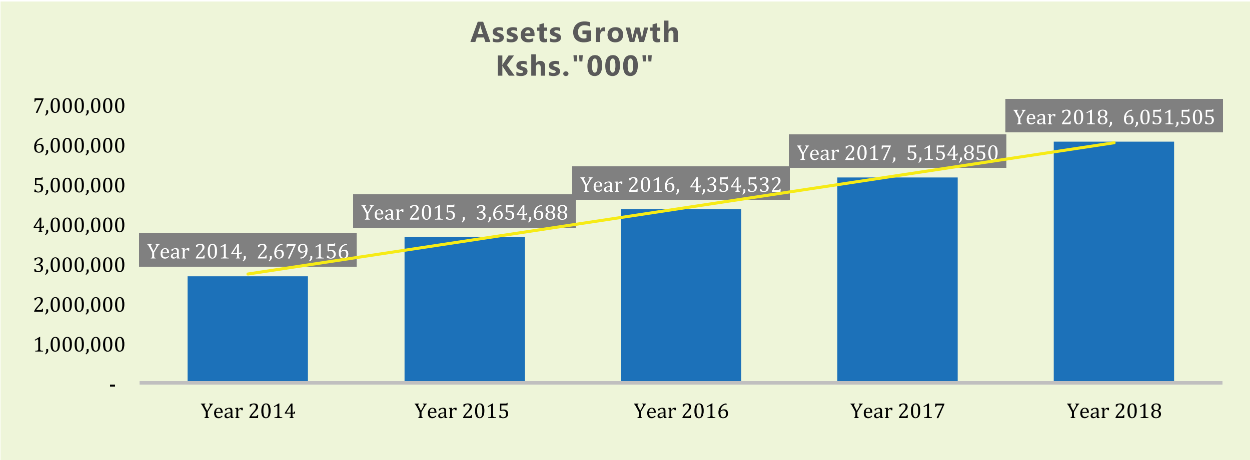
(b)The deposits closed at 4.7 billion in the year 2018, an improvement of 14% from Kshs.4.1 billion in 2017

The deposits were slightly lower than the loans in the year.



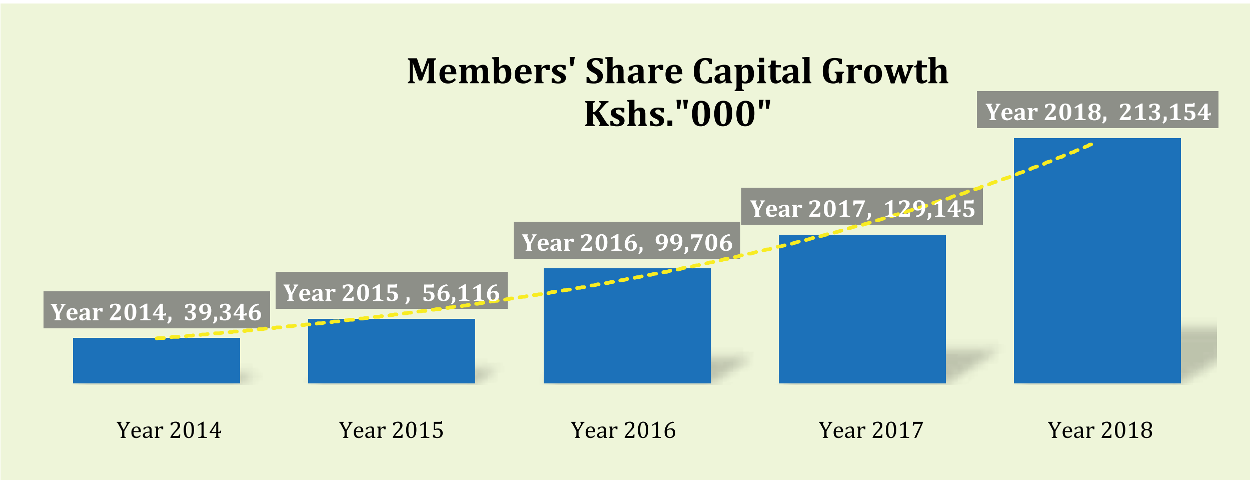
1. Growth in Asset Base

The Total asset base of the Sacco increased from Ksh.5.1billion to Ksh. 6billion in the year, a growth of 17%. This growth is attributed to the growth in loan book increase in cash and cash equivalents and growth in reserves.



2. Growth in Members' Share Capital

The Sacco's capital base improved in the financial period from Kshs.129M in the year 2017 to close at Kshs.213M. The growth in share capital is attributed to the increase in the minimum share capital held by members which was effected in the year



STATEMENT OF BOARD OF DIRECTORS RESPONSIBILITIES

The Kenyan Co-operative Societies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Sacco as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Sacco maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Sacco and are also responsible for safeguarding the assets of the Sacco.

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

i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;

ii) Selecting and applying appropriate accounting policies; and

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Sacco as at 31st December 2018 and of its profit/loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Cooperative Societies Act.

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

Approved by the board of directors on……13/02/2019………and signed on its behalf by:

…………………………………
Phillip Oyuko
Chairperson

…………………………………
Dorobin Agoti
Vice Chairperson

…………………………………
Evaline Ochieng
Hon.Secretary

REPORT OF THE INDEPENDENT AUDITORS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
We have audited the accompanying financial statements of Kimisitu Co-operative Savings and Credit Society Ltd, set out on pages 14 to 52 which comprises the statement of financial position as at 31st December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respect, the financial position of the Society as at 31st December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operative Society' 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountant (IESBA Code) .We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of financial statements in Kenya. 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 judgments, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters and we have described how our audit addressed those matters.

We have fulfilled the responsibility described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to this matters. Accordingly, our Audit included the performance of procedures designed to respond to our assessment of the risk of material misstatement of the Financial Statements. The result of our audit procedures, including the procedures performed to address the Key Audit Matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

key Audit Matter	How the Matter was addressed in the Audit
Credit Risk and impairment of loans to members. Impairment of loans to members is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating, timing and amount of impairment.	**How the matter was addressed in our audit** Our audit procedures in this area included, among others: • Testing the design and operating effectiveness of key control over the approval, recording and monitoring of loans. • Testing the completeness and accuracy of the underlying loan data used in the impairment calculation by agreeing details to the society's source systems on a sample basis.

The estimation of the impairment loss allowance on an individual basis requires management to make judgments to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of borrowers and expected future cash flows. At the end of each year, the society computes expected credit loss on loans using a model, as required by IFRS 9 Financial Instruments: Recognition and Measurements. If total impairment losses as required by legislation or regulators guidelines is higher than that determined in accordance with IFRS,the difference is recognized as a statutory credit risk reserve and accounted for as an appropriation of retained profits. Disclosures on credit risk and impairment losses on loans are detailed in notes 5 (a) i and ii, 17 and 25 (f).	• For impairment losses required by the legislation or regulatory guidelines, we evaluated the ageing of a sample of loans within the loan risk classification categories to determine that the loans were included in the right risk category. We also reviewed valuations of collateral to determine whether the forced sale values of securities considered in the computation of specific impairment losses were supported by valuation reports from registered valuers and were based on available market information. We also recomputed the loan impairment losses to check for arithmetical accuracy. • For impairment losses on loans determined in accordance with IFRS, we reviewed the accuracy of the model's historical loss rate, trends inputs, and assumptions used by the society. For individually assessed loans, we assessed, for a sample of loans, whether key judgements were appropriate given the borrower's circumstances. The key judgements we evaluated include whether the society's assumptions on the expected future cash flows, including the value of realizable collateral, were based on up to date valuations and available market information. We also recalculated management's impairment losses amount to check for arithmetical accuracy. • We also assessed whether the financial statement disclosures appropriately reflect the society's credit risk and impairment losses on loans to members.
Information Technology (IT) systems and controls. The calculation, recording and financial reporting of transactions and balances related to loans, interest income and expenses, investments in securities and customer deposits are significantly dependent on IT automated systems and processes. We therefore identified the society's IT systems as an area of focus to support our ability to rely on controls for the purpose of this report, as the Society's financial accounting and reporting systems are heavily dependent on complex systems.	**How the matter was addressed** Our audit procedures in this area included, among others. • Testing general IT controls around system access and testing control over computer operations within specific applications which are required to operating correctly to mitigate the risk of misstatement in the financial statements. • Assessing whether appropriate restrictions were placed on access to core systems through reviewing the permissions and responsibilities of those given that access; and • Where we identify the need to perform additional procedures, place reliance on manual compensating controls, such as reconciliation between systems and other information sources or performing additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statements balance that were impacted.

Other Information

The directors are responsible for the other information. The other information comprises Report of the Board of Directors, Statement of the Board of Directors Responsibilities, Statistical Information and the Annual Report. Other information does not include the Financial Statements and our Auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance or conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information 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 Annual report, if we conclude that there is 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 & fair view in accordance with the International Financial Reporting Standards and the requirements of the Kenyan Cooperative Society's Act .The directors are required to maintain systems of internal controls sufficient to provide a reasonable assurance that assets are safeguarded against loss, and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true & fair financial statements.

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 intend to liquidate the Society or to cease operation, or has no realistic alternative to do so. The directors are responsible for overseeing the Society's financial reporting process.

Auditors' 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 misstatements. 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.

Misstatement 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 the financial statement.

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

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design & 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 omission, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director'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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Society to express an opinion on the financial statement. We are responsible for the direction, supervision and performance of the Society's audit. We remain solely responsible for our audit opinion.

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.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year 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

The Kenyan Society's Act Cap 490 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the society, so far as it appears from our examination of those books;
- The society's statement of financial position is in agreement with the books of account.

Engagement Partner

The engagement Partner responsible for the audit resulting in this Independent auditor's report is CPA Evans Maeba P/NO 1124.

Omanwa & Associates

OMANWA & ASSOCIATES
Certified Public Accountants
And Secretaries Of Kenya
P.O. Box 64447, Nairobi 00620

OMANWA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS & SECRETARIES
PIN NO. P051165248Z

Dated……13th February……2019

STATEMENT FOR PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018	2017
		KSh."000"	KSh."000"
Revenue			
Income from loans	7	636,714	595,065
Interest income from deposits	8	62,188	22,653
Total Interest income		**698,902**	**617,718**
Interest expenses	9	(441,868)	(356,364)
Net interest income		**257,034**	**261,354**
Other operating income	10	6,470	5,717
Administration expenses	11	(129,912)	(107,911)
Other operating expenses	12	(25,712)	(26,890)
Impairment losses on loans	17	-	(72,740)
Surplus before income tax		**107,880**	**59,528**
Income tax expense	13(a)	(10,147)	(4,876)
Surplus for the year		**97,733**	**54,652**
Other Comprehensive Income			
Gain/Loss on fair Value of investments	18(b)	(294)	-
Deferred Tax on fair value of investments	13(b)	88	-
		(206)	-
Total Comprehensive Income		**97,527**	**54,652**

The notes set out on page 29 to 62 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2018

	Note	2018 Kshs."000"	2017 Kshs."000"
Assets			
Loans to members	16	4,806,697	4,326,032
Cash and bank balances	14(a)	142,962	84,041
Short term deposits held with financial institutions	14(b)	895,563	580,380
Property plant and equipment	26	104,051	92,927
Prepayments and sundry receivables	15	77,162	46,101
Financial assets	18(a)	17,564	11,421
Intangible assets	19	7,418	13,948
Deferred Tax	13(b)	88	-
Total Assets		**6,051,505**	**5,154,850**
Liabilities			
Members' deposits	21	4,742,891	4,146,792
Payables, accruals & Sundry provisions	20	490,032	395,736
Loan loss provision	17	88,257	137,196
Other Member's Savings	22	65,011	30,175
Income tax payable	13(a)	5,606	281
Total Liabilities		**5,391,797**	**4,710,180**
Equity			
Other Reserves	25(b)	145,138	127,630
Revenue Reserves	25(e)	131,189	96,498
Share capital	23	213,154	129,145
Statutory Reserve	25(a)	78,657	59,111
Credit Risk Reserve	25(f)	48,939	-
Proposed Dividends	23	42,631	32,286
Total Equity		**659,708**	**444,670**
Total Liabilities and Equity		**6,051,505**	**5,154,850**

COMMISSIONER FOR CO-OPERATIVE DEVELOPMENT
JAVEL M. MURIRA
ACT CAP 490
SEC. 25(9) CO-OPERATIVE SOCIETIES
REGISTERED

The financial statements on pages 29-62 were approved and authorized for issue by board of directors on .....13/02/2019.......................... and were signed on its behalf by:

....	....	....
Phillip Oyuko	Dorobin Agoti	Evaline Ochieng
Chairperson	**Vice Chairperson**	**Hon. Secretary**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2018

	Share Capital	Credit Risk Reserve	Statutory Reserves	Revenue Reserves	Other Resrves	Proposed Dividends	Total
	Ksh."000"	Ksh."000"	Ksh."000"	Ksh."000"	Ksh."000"	Ksh."000"	Ksh."000"
Year Ended 31st December 2017							
As at 1st January 2017	99,706	-	48,180	87,547	119,527	29,912	384,872
Adjustments	-	-	-	(298)	-	-	(298)
Dividends Paid	-	-	-	-	-	(29,912)	(29,912)
Restated Balance	**99,706**	**-**	**48,180**	**87,249**	**119,527**	**-**	**354,662**
Changes in Equity in 2017							
Total Recognized income for the year	-	-	-	54,652	-	-	54,652
Insurance reserve fund	-	-	-	-	4,973	-	4,973
Transfer to statutory reserve	-	-	10,930	(10,930)	-	-	-
Proposed Dividends	-	-	-	(32,286)	-	32,286	-
General reserve	-	-	-	(2,186)	2,186	-	-
Fair Value gain on shares	-	-	-	-	944	-	944
Issue of Share Capital	29,440	-	-	-	-	-	29,440
As at 31st December 2017	**129,146**	**-**	**59,110**	**96,498**	**127,630**	**32,286**	**444,670**
Year Ended 31st December 2018							**-**
As at 1st January 2018	129,145	-	59,110	96,498	127,630	32,286	444,670
Adjustments	-	-	-	3,045	-	-	3,045
Dividends Paid	-	-	-	-	-	(32,286)	(32,286)
Restated Balance	**129,145**	**-**	**59,110**	**99,543**	**127,630**	**-**	**415,429**
Changes in Equity in 2018							**-**
Total comprehensive income for the year	-	-	-	97,733	(206)	-	97,527
Insurance reserve fund	-	-	-	-	7,368	-	7,368
Transfer to statutory reserve	-	-	19,547	(19,547)	-	-	-
Proposed Dividends	-	-	-	(42,631)	-	42,631	-
Credit Risk Reserve	-	48,939	-	-	-	-	48,939
General reserve	-	-	-	(3,909)	3,909	-	-
Revaluation	-	-	-	-	6,436	-	6,436
Issue of Share Capital	84,009	-	-	-	-	-	84,009
As at 31st December 2018	**213,154**	**48,939**	**78,657**	**131,189**	**145,138**	**42,631**	**659,708**

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018 Kshs."000"	2017 Kshs."000"
Cash Flows from operating Activities			
Interest received from members	7	636,714	597,933
Other income	10	5,539	1,479
Interest on members deposits payments	9	(356,731)	(307,172)
Payments to employees and suppliers	11&12	(141,674)	(122,463)
Total		**143,848**	**169,777**
Increase / (Decrease) in operating assets			
Loan to members	16	(480,666)	(337,427)
Trade and other receivables	15	(31,061)	(11,106)
Increase / (Decrease) in operating Liabilities			
Deposits from members	21&22	630,933	615,755
Trade and accrued expenses	20	9,162	2,817
Honorarium paid	24	(3,117)	(5,356)
Total		**125,251**	**264,683**
Net cash from operating activities before income and taxes			
Income tax paid	13	(4,823)	(7,230)
Net cash from operating activities		**264,277**	**427,229**
Cash flow from Investing activities			
Purchase of property and equipment	26	(12,382)	(4,179)
Purchase of intangible assets		-	(8,185)
Purchase of investment securities		-	(1,575)
Insurance rebates received		-	581
Interest received from term deposits	8	62,188	22,653
Dividends received	10	932	789
Net Cash from investing activities		**50,738**	**10,084**
Cashflow from financing activities			
Share capital contributions	23	84,009	29,439
Loans & Deposits insurance	25	7,368	6,463
Dividends paid	25	(32,286)	(30,118)
Net Cashflow from financing activities		**59,091**	**5,784**
Cash and Cash Equivalents at the beginning of the year		664,421	221,323
Net Change in Cash and Cash equivalents		374,105	443,098
Cash and cash equivalents at the end of the year		**1,038,526**	**664,421**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2018

1. Reporting Entity

Kimisitu Sacco society Ltd (Registration Number CS/4252) is registered in Kenya with its principal place of business and registration office at Kimisitu Sacco Plaza P.O Box 10454-00100 Nairobi.

It is incorporated under the co-operatives Society Act Cap 490. It is regulated by the ministry of Industry, Trade and Co-operatives

2. Basis of Preparation

(a) Statement of Compliance

The financial statements have been prepared in accordance with the International Financial reporting standards and the co-operatives societies Act.

The financial statements are prepared under the historical cost basis expect for fair value of certain assets

(b) Going Concern

Based on the financial performance and position of the Sacco and its risk management policy the directors are of the opinion that the Sacco will be in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis

(c) Use of Estimates and Judgements

The preparation of financial statements in conformity with the international reporting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements period.

Although these estimates are based on the director's best knowledge of current events and actions, actual results ultimately may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements are described in the notes.

(d) Functional and presentation Currency

The Financial statements are presented in the Kenyan Shillings, which is also the Sacco's function currency. Except as otherwise indicated, the financial information presented in Kenya shillings (Kshs.) has been rounded to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant Accounting Policies

(a) The principal accounting policies adopted in the preparation of these financial policies are as set below;

Revenue Recognition

Revenue is derived substantially from Sacco business and related activities and comprises of interest income and non-interest income. Income is recognized on accrual basis in the period in which it is earned.

(i) Interest

Interest income and expense for all interest-bearing instruments are recognized 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.

(ii) Dividend Income

Dividend income is recognized once the shareholders right to receive payment has been confirmed.

(b) Members Deposits and Savings

Members deposits and savings are stated at their nominal value. Interest payable on members savings are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(c) Property and Equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Costs includes expenditures that directly attributable to the acquisition of the asset.

Depreciation

All property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The annual Depreciation rates in use are:

Asset	Rate %
Freehold land	0
Buildings	2.5
Office Equipment	12.5
Furniture, Fixtures &Fittings	12.5
Compute and computer accessories	30
Motor Vehicle	25

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate at each reporting date.

(iii) Subsequent Costs

The cost of replacing a component of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Sacco and its cost can be measured reliably.

The costs of the day-to day servicing of property and equipment are recognized in profit or loss as incurred.

(iv) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are recognized in the Profit or loss in the year in which they arise.

(d) Intangible Assets -Software's

Computer software's licenses are stated at cost less accumulated amortization and accumulated impairment losses.

The cost incurred to acquire and bring to use specific computer software licenses are capitalized. The costs are amortized on a straight-line basis over the expected useful lives using annual rate of 25% and are recognized in the profit and loss.

Costs associated with maintaining the software are recognized as an expense as incurred.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

Amortization methods, useful life and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Statutory Reserves

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(f) Financial Assets and Liabilities

(i) Recognition

The Sacco recognizes the loans, deposits and advances on the date which they originated. All other financial instruments are recognized on the trade date which is the date the Sacco becomes a party to the contractual provisions of the instrument.

All financial Asset or financial liability is measured initially at fair value plus for an item not at fair value through profit and loss transactions that are directly attributable to its acquisition or issue.

(ii) Classification

The Sacco classifies its financial assets into the following categories.

Loans and Receivables

Loans and Receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

They arise when the Sacco provides money directly to borrowers (Sacco members). They are recognized at the date the money is disbursed to the borrower.

Amortized cost is calculated using the effective interest rate method. The amortization is included in the interest income.

Held - to- Maturity

These are financial assets with fixed or determinable payments and fixed maturities that the Sacco's management has a positive intention and ability to hold to maturity.

The sale of a significant amount of held-to maturity assets would taint the entire category leading to reclassification as available for sale. These assets are held at cost.

Fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so, designated by management Investments held for trading are those which were either acquired for generating a profit from short term fluctuations in price or dealers margin or are securities included in a portfolio which a pattern of short term profit taking exists.

Available-for-sale

Financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognized. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Financial Liabilities

The Sacco classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

Derecognition

A financial asset is derecognized when the Sacco loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered.

A financial liability is derecognized when its contractual obligations are discharged or cancelled or expires.

Held-to-maturity instruments and loans and receivables are derecognized on the day they are repaid in full or when they are transferred by the Sacco to a third party.

Offsetting

Financial assets and liabilities are offset, and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(g) Identification and measurement of impairment of financial assets

At each reporting date, the Sacco assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Sacco considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment.

All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Sacco on terms that the Sacco would not otherwise consider, indications that a borrower or issuer will enter Sacco bankruptcy, the disappearance of an active market for a security, would not otherwise consider, indications that a borrower or issuer will enter Sacco bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Sacco uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

estimated cash flows discounted the at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and present value of Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(h) Impairment for non-financial assets

The carrying amounts of the Sacco's non-financial assets, other than deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. An impairment loss is recognized if the carrying generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

Impairment losses are recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Income tax expense

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of a previous year.

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.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realized simultaneously.

(j) Employee benefits

The majority of the Sacco's employees are eligible for retirement benefits under a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

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 local statute and are currently limited to a minimum Kshs. 400 per employee per month.

(k) Termination benefits

Termination benefits are recognized as an expense 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 any such offer 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.

(l) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with banks available to finance the Sacco's day-to-day operations and treasury bills and bonds which mature within 12months or less from the date of acquisition.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(m) Related parties

In the normal course of business, transactions have been entered into with certain related parties. These transactions are at arm's length.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(n) Contingent liabilities

Liabilities arising out of legal disputes are accounted for and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is recognized in profit or loss.

(o) Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Sacco are not assets of the Sacco and have a nil effect in the statement of financial position.

(p) Comparatives

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

(q) Provisions for liabilities and other charges

Provisions are recognized when the Sacco has a present obligation (legal or constructive) as a result of past event, it is probable that the Sacco will be required to settle the obligation and reliable estimate can be made of the amount of obligation.

The amount recognized of the obligation as a provision is the best estimate consideration required to settle the present obligation as at the reporting date taking into account the risks and uncertainties surrounding the obligation.

(r) Adoption of new Standards and Interpretations

IFRS NEW PRONOUNCEMENT	AMMENDEMENTS	EFEECTIVE DATE
IFRS 9 (2014) Financial Instruments	Amendment – Prepayment Features with Negative Compensation	1 January 2019
IFRS 16 Leases	IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17.	1 Jan 2019
IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	
IFRS 15 Revenue from Contracts with Customers	Amendment Clarifications to IFRS 15	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(i) New standards, amendments and interpretations effective and adopted during the year

IFRS 9 *Financial Instruments (2014)*	The new classification and impairment have been applied by adjusting the balance sheet as at 31st December 2018 with no restatement of comparative period financial information. We have made adjustment to equity to reflect difference between carrying amounts under IAS 39 and carrying amounts under IFRS 9 through the credit reserve account. The impact has led to improvement in the capital ratios due to the additional reserve account.
Recognition of deferred Tax Assets for unrealized losses –(Amendments to IAS 12)	The amendments' in recognition of deferred tax assets for unrealized losses clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to deductible temporary difference regardless whether the debt instrument holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits Estimates for future taxable profits exclude tax deductions resulting from reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type The adoption of these changes did not have a significant impact on the amounts and disclosures in the financial statements

(ii) IFRS 9 Prepayment Features with Negative Compensation

Amendments to IFRS 9 Effective for annual periods beginning on or after 1 January 2019.

Key requirements Under IFRS 9,

Debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract

Transition The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

Modification or exchange of a financial liability that does not result in derecognition In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

(ii) Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

Effective for annual periods beginning on or after 1 January 2019.

Key requirements

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

❖ Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

❖ Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

Transition The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

Impact

The changes in the IAS 19 will not have any effect on the Kimisitu Sacco books as there is no panned change in the defined benefit plan

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(iii) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalized any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

Key requirements

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is

recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business,

however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. Transition The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

This has zero impact on Kimisitu Sacco has it does not engage in associate or joint venture business

IFRS 15 Revenue Contracts with customers

The standard replaces IAS 11, construction contracts , IAS 18 revenue, IFRIC 13, Customer loyalty programmes ,IFRIC 15 Agreements for construction of real estates ,IFRIC 18 transfer of assets from customers and SIC -31 Revenue barter of transactions involving advertising services .The standard contains single model that applies o contracts with customers and two approaches of recognizing revenue at appoint in time or over time. The standard specifies how and when an IFRS reporting entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. The standard provides a single principle based five-step model to be applied to all contracts with customers in recognizing revenue being:

i) Identify the contracts with a customer,

ii) Identify the performance obligations in the contract

iii) Determine the transaction price

iv) Allocate the transaction price to the performance obligations and

v) Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 is effective on or after 1 January 2018 with early adoption permitted. The management is assessing the impact on the application

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Following is a summary of the amendments from the 2015-2017 annual improvements cycle

IFRS 3 Business Combinations	**Previously held Interests in a joint operation** The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. ❖ An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IFRS 11 Joint Arrangements	**Previously held Interests in a joint operation** A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. ❖ An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IAS 12 Income Taxes	**Income tax consequences of payments on financial instruments classified as equity** The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. ❖ An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences
IAS 23 Borrowing Costs	**Borrowing costs eligible for capitalization** The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. ❖ An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. ❖ An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(iv) IFRS 16 Leases

Key requirements

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

Impact

The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortization (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities

There might be some impact to the Sacco as there are intentions to put up a plaza and hence will be leasing space during the construction period, the management team is assessing the possible impact resulting from the application of IFRS 16.

4. Use of Estimates and Judgements

In the process of applying the accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(i) Impairment losses on loans and receivables

In determining whether an impairment loss should be in the profit and loss the Sacco makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a Sacco or national or local economic conditions that correlate with defaults on assets in the Sacco.

Management uses estimates based on historical loss experience for assets with credit characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cashflows. The methodology and assumptions are reviewed regularly to reduce any differences between loss estimates and actual cash loss experience

(ii) Property and Equipment

The Directors have made critical estimates in determining the useful life of property and equipment and intangible assets based on the intended use of the asset and the economic lives of those assets.

Subsequent changes in circumstances such as technology advances and prospective utilization of the asset concerned could result in the actual useful lives or residual values differing from initial estimates

(iii) Taxation

Significant judgement is required in determining the saccos provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Sacco recognizes liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

5. Financial Risk Management

The Sacco is exposed to various risks, major risks exposures arise due to use of financial instruments and can be categorized as follows:

(a) **Credit risk**
(b) **Liquidity risk**
(c) **Market risks**

The Sacco is continuously putting measures in place to help manage these risks every day. These measures include setting appropriate strategic and operational objectives, policies and processes geared towards identification and effective management of the risks identified.

Risk management is carried out by the Audit and risk management committee (ARM)of the board under the policies approved by the board of directors

The ARM identifies, evaluates and manages the financial risks in close co-operation with various departmental heads.

The board of directors has provided the risk management policy written principles for overall risk management as well as written policies covering specific areas such as interest rate risk, credit risk and investment of excess liquidity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The committee report monthly to the board of directors on all aspects of risks including nature of risks, measures instituted to mitigate risk exposures.

(a) Credit risk

Credit risk refers to the chance of loss due to a borrower's default on their contractual obligations resulting in financial loss to the Sacco, this arises mainly from the Sacco loans and advances to the members.

The board has assessed the credit risk based on prior experience assessment of the current economic environment, therefore implementing the IFRS 9, the resulting impact has been accounted for in the 2018 balance sheet.

(i) Management of Credit risk

The Sacco's credit policy is to lend to only credit worthy members and obtaining sufficient collateral and guarantors where appropriate as a measure of mitigating risk of financial loss from defaults. The Sacco does not hold any receivable from members or entities that have been declared bankrupt.

(i) ***Classification of loans to members***

Below is the Sacco maximum exposure to credit risk before collateral held or other credit enhancements

Period	Classification	2018	2017
		Kshs."000"	Kshs."000"
Neither Past due nor Impaired	Normal	3,907,370	3,481,226
Past due up to 30 days	Watch	402,621	400,476
Past due up to 31-180 days	Substandard	364,988	341,735
Past due over 181-360 days	Doubtful	72,613	67,492
Past due over 360 days	Loss	59,105	35,103
Total Loan As at 31st December		4,806,697	4,326,032

(iii) Concentration risk

The Sacco does not have any significant credit risk exposure to any single counter party or any counterparties having similar characteristics

(b) Liquidity Risks

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

The Sacco manages liquidity risk by maintaining adequate reserves, banking facilities and reserves a borrowing capacity by continuously monitoring forecasting and actual cashflows and matching the maturity profiles of financial assets and liabilities.

(i) Exposure to liquidity risk

Although the Sacco is not regulated by SASRA, it has highly referenced on SASRA requirements on financial reporting

SASRA requires that a Sacco holds a minimum of 15% of savings, deposits and short-term liabilities are held in liquid assets

For this purpose, liquid assets include notes and coins, balances at institutions licensed under the

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Banking Act after deducting therefrom balances owed to those institutions, treasury bills and bonds and deposits of a maturity not exceeding 90 days.

The table below analyses the maturity profiles of the financial assets and liabilities of the Sacco based on the remaining period as at 31st December 2018. and as at 31st December 2017 as base period to the contractual maturity.

	Less than 3 months Kshs."000"	3 to 12 months Kshs."000"	1 to 5year Kshs."000"	Total Kshs."000"
31st December 2018				
Financial assets				
Cash and Bank	142,962			142,962
Fixed & Call Deposits Accounts	597,042	149,261	149,261	895,563
Loans to members	1,602,232	1,068,155	2,136,310	4,806,697
Other receivables	77,162			77,162
Total	2,419,399	1,217,416	2,285,571	5,922,385
Financial Liabilities				
Members Deposits	1,580,964	1,053,976	2,107,951	4,742,891
Provisions for interest on deposits		441,868		441,868
Other Liabilities	560,649			560,649
Total	2,141,613	1,495,844	2,107,951	5,745,408
Net Liquidity	**277,787**	**(278,428)**	**177,619**	**176,977**

It is highly unlikely that the members will withdraw their deposits within 1-12 months. The sacco is able to meet its cash requirements without the need for borrowing

	Less than 3 months Kshs."000"	3 to 12 months Kshs."000"	1 to 5year Kshs."000"	Total Kshs."000"
31st December 2017				
Financial assets				
Cash and Bank	84,041			84,041
Fixed & Call Deposits Accounts	386,920	96,730	96,730	580,380
Loans to members	4,326,032			4,326,032
Other receivables	46,102			46,102
Total	4,843,095	96,730	96,730	5,036,555
Financial Liabilities				
Members Deposits	4,146,792			4,146,792
Provisions for interest on deposits		356,364		356,364
Other Liabilities	426,192			426,192
Total	4,572,984	356,364	-	4,929,348
Net Liquidity	**270,110**	**(259,634)**	**96,730**	**107,206**

(c) Market Risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the fair value or the future cash flows of the Sacco's financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(i) Equity price risk

The Sacco is exposed to equity securities price risk as a result of its holdings in listed equity investments, classified as fair value through profit and loss. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are both listed, and traded on the Nairobi Securities Exchange, and unquoted shares with Sacco APEX bodies

Accounting, Classification and Fair Values

	Available for sale Kshs."000"	Held to maturity Kshs."000"	At Fair Value through profit&Loss Kshs."000"	Loans & Receivables Kshs."000"	Other Financial Liabilities Kshs."000"	Total Kshs."000"
As at 31st December 2018						
Finanncial Assets measured at Fair Value						
Investments	-	15,085	2,772	-	-	17,857
Total	**-**	**15,085**	**2,772**	**-**	**-**	**17,857**
Financial Assets not measured at fair value						
Cash and Cash equivalents	-	-	-	1,038,526	-	1,038,526
Loans	-	-	-	4,806,697	-	4,806,697
Other receievables	-	-	-	77,162	-	77,162
Total	**-**	**-**	**-**	**5,922,386**	**-**	**5,922,386**
Financial Liabilities not measured at Fair Value						
Members Deposits	-	-	-	-	4,742,891	4,742,891
Provisions for interest on deposits	-	-	-	-	441,868	441,868
Other Liabilities	-	-	-	-	560,649	560,649
Total	**-**	**-**	**-**	**-**	**5,745,408**	**5,745,408**
As at 31st December 2017						
Finanncial Assets measured at Fair Value						
Investments	-	8,649	2,772	-	-	11,421
Total	**-**	**8,649**	**2,772**	**-**	**-**	**11,421**
Financial Assets not measured at fair value						
Cash and Cash equivalents	-	-	-	664,421	-	664,421
Loans	-	-	-	4,326,032	-	4,326,032
Other receievables	-	-	-	46,102	-	46,102
Total	**-**	**-**	**-**	**5,036,555**	**-**	**5,036,555**
Financial Liabilities not measured at Fair Value						
Members Deposits	-	-	-	-	4,146,792	4,146,792
Provisions for interest on deposits	-	-	-	-	356,364	356,364
Other Liabilities	-	-	-	-	426,192	426,192
Total	**-**	**-**	**-**	**-**	**4,929,348**	**4,929,348**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Capital Risk Management

The Sacco manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to members through the optimization of debt and equity balance in implementing the capital requirements the Sacco Act requires each Sacco to maintain,

- Core Capital of not less than 10 million
- Core Capital of not less than 10 percent of total assets
- Institutional Capital of not less than 8% of total assets
- Core Capital of not less than 8% of total deposits

The Sacco has instituted measures to meet this ratio in the strategic plan by having all members at a minimum of share capital of Kshs. 30,000 by the year 2020.

The Capital adequacy ratios as at 31st December 2018 and 31st December 2017 were as follows:

	2018	2017
	Kshs. "000"	**Kshs. "000"**
Total Share Capital	213,154	129,145
Retained Earnings	131,189	96,498
Core Capital	617,077	412,384
Institutional Capital	403,923	283,238
Total Assets	6,051,505	5,154,850
Total Deposits	4,742,891	4,146,792
Core Capital /Total Assets (Statutory requirement 10%)	10%	8%
Core Capital /Total Deposits (Statutory requirement 8%)	13%	10%
Institutional Capital /Total Assets (Statutory requirement 8%)	7%	5%

7. Income from loans

	2018	2017
	Ksh."000"	**Ksh."000"**
Interest received from loans	608,949	572,220
Bridging Interest	27,765	22,679
Loan Processing Interest	-	166
Total	**636,714**	**595,065**

8. Interest Income from Short term Investments

	2018	2017
	Ksh."000"	**Ksh."000"**
Interest Income from term deposits	62,188	22,653
Total	**62,188**	**22,653**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Interest expenses

	2018 Ksh."000"	2017 Ksh."000"
Interest on Holiday Savings	897	723
Interest on members deposits	439,985	354,849
Interest on Little Angels	986	792
Total	**441,868**	**356,364**

10. Other operating income

	2018 Ksh."000"	2017 Ksh."000"
Entrance Fees	937	1,721
Withdrawal Commissions from members	2,439	969
Member Card Replacement costs	103	78
Mobile Banking Income	260	100
Dividends Received	932	789
Other income	1,799	2,060
Total	**6,470**	**5,717**

11. Administration expenses

	2018	2017
Staff Expenses	**Ksh."000"**	**Ksh."000"**
Salary and Wages	61,845	54,579
Bank Charges	1,984	1,144
Pension Expenses	11,089	9,684
Employer N.S.S.F Contribution	82	79
Staff Travelling	416	440
Staff Training	5,349	4,830
Staff Medical Insurance Exp.	6,245	4,062
Group Life Insurance Expense	473	369
Total Staff Expenses	**87,483**	**75,187**
Repair, Maintenance &Insurance		
Repair and Maintenance	10,431	8,402
General Insurance Expense	693	798
Property Insurance Expense	173	29
Property Maintenance	2,978	2,123
Total Property Maintenance	**14,275**	**11,352**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Other Administrative Costs		
Telephone & Postage	606	572
Printing & Stationery	330	734
Amortization	3,406	2,740
Depreciation	4,329	3,425
Email Expenses	942	968
Office Expenses	2,063	1,352
Consultancy	2,066	2,508
Audit Fees	498	398
Supervision fees	50	40
Licenses and Subscriptions	102	449
Legal Fees	412	189
Debt management fee	199	43
Corporate Social Donations	940	592
Advert Marketing & Publicity	12,211	7,362
Total Other Admin. Exp.	**28,154**	**21,372**
Total Administrative Expenses	**129,912**	**107,911**

12 Other operating expenses

	2018 Ksh."000"	2017 Ksh."000"
Members Expenses		
AGM Expenses	7,273	5,695
Education to Members	5,697	2,904
Co-op Annual Events	1,395	2,192
Total Members Expenses	**14,365**	**10,791**
Governance Expenses		
Board Sitting Allowance	4,421	4,065
Board Training	3,423	2,839
Board Travel	1,305	1,155
Other Board Expenses	574	470
Strategic Planning	1,624	1,336
Proposed Honorarium		6,234
Total Board Expenses	11,347	16,099
Total Other Operating Expenses	**25,712**	**26,890**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13(a) Taxation

	2018 Ksh."000"	2017 Ksh."000"
Total Turnover for the Year	705,372	623,435
Less: Interest from Members' Loans	(636,714)	(595,063)
Less: Gross Dividends received (Sec 7(3)	(932)	(789)
	67,726	**27,583**
Gross Interest from Bank (indicated gross amt in P&L)	**62,188**	**22,653**
50%of interest from banks	31,094	11,327
Other Income	2,730	4,928
Taxable Income	**33,824**	**16,255**
Tax thereon @ 30%	10,147	4,876
Add Balance as at beginning of the period	281	2,635
	10,428	**7,511**
Less Withholding Tax on Bank Interest in the year	(4,232)	(1,697)
Less Tax paid in the year	(281)	(2,635)
less installment tax paid in the year	(309)	(2,898)
Tax Liability	**5,606**	**281**

13(b) Deferred Tax

Deferred Tax is calculated using the enacted income tax rate of 30%.

The valuation of financial instruments at fair value has given a temporary difference in tax and hence the deferred tax

	2018 Ksh."000"	2017 Ksh."000"
Fair Value gain	(294)	-
Tax thereon @30%	(88)	-

14(a). Cash and cash equivalents

	2018 Ksh."000"	2017 Ksh."000"
CBA Current Account	119,148	32,258
Coop Current Account	1,314	1,089
NIC Current Account	15,441	48,975
M-PESA Accounts	7,048	1,705
Cash in hand	11	15
	142,962	**84,041**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14(b). Short Term Deposits

	2018 Ksh."000"	2017 Ksh."000"
Central Bank of Kenya	212,470	220,000
Co-operative Bank of Kenya	69,507	65,655
CIC Insurance	265,000	6,000
NIC Bank	65,586	59,726
Kenya Commercial Bank		50,000
Britam	283,000	99,000
SANLAM Insurance	-	15,000
CBA		65,000
	895,563	**580,380**

The short-term deposits are deposits with a maturity within 1 year

15. Prepayments and sundry receivables

	2018 Ksh."000"	2017 Ksh."000"
Member Contribution receivables		446
Receivable Income	61,530	28,118
Staff Loans	13,051	16,375
Other Receivables	87	668
Prepayments	2,397	398
Deposit Accounts	97	97
	77,162	**46,101**

Included in other receivables is interest income from banks and interest income from members which was due in December but received in January 2019.

16. Loans to Members

	2018 Ksh."000"	2017 Ksh."000"
As at 1 January	4,208,793	3,918,817
Issued in the year	2,888,860	2,474,105
Paid in the year	(2,418,802)	(2,184,129)
As at 31st December	4,678,851	4,208,793
Loans on Default		
As at January	117,239	69,820
Defaulters during the year	129,852	270,600
Recoveries during the year	(119,245)	(223,181)
As at 31st December	**127,846**	**117,239**
As at 31st December	**4,806,697**	**4,326,032**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. Impairment Losses on loans

	2018	2017
	Ksh."000"	Ksh."000"
As at 1st January	137,196	64,456
Movement in the year	(88,257)	72,740
Transfer to credit reserve	**48,939**	**137,196**

The society has adopted the requirements of IFRS 9 to provide for impairment on loans. The Sacco in 2016, adopted the option of providing for loan loss as a counter cyclical buffer in line with the financial service industry best practice. In 2018, this buffer has been applied and was adequate to absorb the provision requirements, the balance of the buffer has been transferred to the credit reserve.

IFRS 9 Loan Impairment Table	**Outstanding Balance**	**Expected Credit Loss**
Category	**Ksh."000"**	**Ksh."000"**
Stage 1	4,309,992	47,072
Stage 2	247,975	5,213
Stage 3	248,730	35,972
Grand Total	**4,806,697**	**88,257**

18(a). Financial Assets

unquoted shares at Cost

	2018	2017
	Ksh."000"	Ksh."000"
KUSCCO (20,027 ordinary shares of Kshs 100 each)	2,079	2,079
C.I.C GROUP (1,348,440 Ordinary Shares of Kshs 3.5 each)	4,720	1,345
CIC Sacco Shares (450,000 Ordinary shares of Kshs 3.5each)	1,575	1,575
COOP Bank Holdings (480,917 Class A shares-share price as at 31.12.18 Ksh.8.85)	4,112	1,050
Kimisitu Investment Company Ltd (KICL) Shares (240,000 ordinary shares of Kshs 10 each. The market price as at 31.12.18 was Kshs. 15.15)	2,600	2,600
	15,086	**8,649**

18(b). Quoted Shares at fair Value through profit &Loss

	2018	2017
	Ksh."000"	Ksh."000"
COOP Bank (168,000 Class B shares @14.75 each)	2,772	2,772
The shares include a bonus of 28000 shares issued in 2017	(294)	
	2,478	**2,772**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 Intangible assets

	2018	2017
	Ksh."000"	Ksh."000"
As at 1st January	12,702	12,702
Additions	2,930	-
Software's Written off	746	-
Reinstatement of Nav.	2,131	-
Work in progress	-	8,185
Amortization		
Opening Balance	(6,939)	(4,199)
Write off	(746)	-
Charge for the year	(3,406)	(2,740)
As at 31st December	**7,418**	**13,948**

The intangible assets refer to Sacco's software, the reinstated Asset refer to Navision 2016 which had been accounted for as working in progress in 2017.

20. Accounts Payables and provisions

	2018	2017
	Ksh."000"	Ksh."000"
Creditors	13,276	5,747
Other payables	15,116	11,292
Accrued expenses	2,209	6,158
	30,601	**23,197**
Payable to members		
Interest on deposits	439,985	354,849
Other member payables	5,241	1,112
Interest on Savings	4,314	488
Proposed Honorarium		6,234
Insurance paid on loans	9,891	9,855
Total payable to members	**459,431**	**372,539**
Total payables	**490,032**	**395,736**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Members Deposits

	2018 Ksh."000"	2017 Ksh."000"
As at 1st January	4,146,792	3,424,289
Deposits during the year	921,917	920,250
member offsets, refunds and recoveries during the year	(333,171)	(332,563)
As at 31st December	**4,735,538**	**4,011,975**
Dormant Deposits		
As at 1st January	134,818	117,099
Deposits for dormant members of the year	162,640	93,450
Deposits activated during the year	(290,105)	(75,732)
As at 31st December	**7,353**	**134,818**
As at 31st December	**4,742,891**	**4,146,792**

Members Deposits are contributions that are not withdrawable unless upon cessation of membership and requires at least 60 days' notice, an interest of 11 % has been proposed for the year 2018.

22. Savings Deposits

	2018 Ksh."000"	2017 Ksh."000"
Holiday accounts		
As at 1st January	14,756	12,803
Deposits in the year	34,366	23,832
Withdrawals in the year	(31,596)	(21,879)
As at 31st December	**17,526**	**14,756**
Little Angels Account's		
As at 1st January	11,455	7,021
Deposits in the year	22,429	9,113
Withdrawals in the year	(15,589)	(4,679)
As at 31st December	**18,295**	**11,455**
Disbursement accounts		
As at 1st January	3,964	-
Deposits in the year	123,956	3,964
Withdrawals in the year	(102,159)	
As at 31st December	**25,761**	**3,964**
Wekeza accounts		
Deposits in the year	20,911	
Withdrawals in the year	(17,482)	
As at 31st December	**3,429**	
Total Savings Accounts	**65,011**	**30,175**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. Share Capital

	2018 Ksh."000"	2017 Ksh."000"
As at 1st January	116,064	99,706
Contributions in the year	79,079	16,358
Ex. Members Share Capital	18,011	13,082
	213,154	129,145

Ex. Members Share Capital represents share capital holding for withdrawn and deceased members. The Sacco has proposed a dividend payout on members share capital at 20% (42.6m). This is in line with the strategic plan.

24. Related Party transactions

Parties are deemed related if one party has the ability to control the other party to exercise significant influence in making financial or operational decisions. Loans to members as at 31st December 2018 and 31st December 2017 include loans to Directors and staff. All transactions with related parties are at an arm's length in the normal course of business and on terms and conditions similar to those applicable to other customers

(a) Loans

	Directors		Staff	
	2018 Kshs."000"	2017 Kshs."000"	2018 Kshs."000"	2017 Kshs."000"
As at 1st January	27,676	36,203	39,298	30,668
Net Movement in the year	(9,298)	(8,527)	(7,242)	8,630
As at 31st December	**18,378**	**27,676**	**32,056**	**39,298**

(b) Deposits

	Directors		Staff	
	2018 Kshs."000"	2017 Kshs."000"	2018 Kshs."000"	2017 Kshs."000"
As at 1st January	17,086	17,212	11,974	8,437
Net Movement in the year	(3,073)	(126)	(99)	3,537
As at 31st December	**14,013**	**17,086**	**11,875**	**11,974**

(C) Directors Payments

	2018 Kshs."000"	2017 Kshs."000"
Directors allowances	11,347	9,865
Honorarium	6,400	6,234
	17,747	**16,099**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. Reserves

(a) Statutory Reserve

Statutory reserve fund 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

	2018 Kshs."000"	2017 Kshs."000"
As at 1st January	59,111	48,180
Transfer of 20%	19,546	10,930
As at 31st December	**78,657**	**59,111**

(b) Other Reserves

	2018 Kshs."000"	2017 Kshs."000"
General reserve		
As at 1st January	57,781	55,595
Transfer of 5%	3,909	2,186
	61,690	**57,781**

General reserve, is derived as a percentage of surplus as per the Sacco's by-laws (requirement 5%of surplus)

Revaluation reserve		
As at 1st January	35,918	35,918
	35,918	**35,918**
Insurance reserve		
As at 1st January	31,716	31,716
Addition in the year	7,369	
	39,085	**31,716**
Investment Reserve		
As at 1st January	2,215	1,271
Dividend Capitalized on Kuscco shares		76
Fair Value Loss on quoted investment	(206)	868
Revaluation gain on unquoted investment	6,436	
	8,445	**2,215**
Total Other Revenue Reserves	**145,138**	**127,630**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(e) Revenue reserves

The retained earnings balance represents the amount available after appropriations and forms part of the saccos reserves.

	2018	2017
	Kshs."000"	Kshs."000"
As at 1st January	96,498	87,547
Appropriation Balance	25,246	9,249
Proposed Honorarium	6,400	-
Prior year adjustments	3,045	(298)
As at 31st December	**131,189**	**96,498**

The prior year adjustment represents 50% of honorarium written back from the amount payable to directors.

(f) Credit Risk Reserve

Where impairment losses required by legislation or regulations exceed those calculated under international financial reporting Standards (IFRS), the excess is recognized as a statutory credit risk reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

	2018	2017
	Kshs."000"	Kshs."000"
Provision Buffer As at 1st Jan	137,196	64,456
Additions in the year	-	72,740
Less IFRS 9 required provision	(88,257)	-
Transfer to Credit reserve	**48,939**	**137,196**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Property and Equipment

	Freehold land	Buildings	Computer & computer accessoires	Office equipment	Furniture & fittings	Motor Vehicle	Total
	Kshs."000"	Kshs."000"	Kshs."000"	Kshs."000"	Kshs."000"	Kshs."000"	Kshs."000"
Cost or valuation							
Balance as at 1 Jan. 2017	70,000	11,879	8,710	6,134	5,603	970	103,296
Additions	-	51	1,820	1,750	558	-	4,179
Disposals	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	(180)	(180)
Balance at 31 Dec. 2017	**70,000**	**11,930**	**10,530**	**7,884**	**6,161**	**790**	**107,295**
Accumulated depreciation							
Balance as at 1 Jan. 2017		824	6,026	1,840	2,056	198	10,944
Depreciation Charge for the year	-	276	1,394	1,093	513	148	3,424
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2017	**-**	**1,100**	**7,420**	**2,933**	**2,569**	**346**	**14,368**
Balance as at 1 Jan. 2018	70,000	11,930	10,530	7,884	6,161	790	107,295
Additions	-	-	1,553	10,073	756	-	12,382
Transfer from Work in Progress				3,124			3,124
Disposals	-	-	(112)	-	-	-	(112)
Balance at 31 December 2018	**70,000**	**11,930**	**11,971**	**21,081**	**6,917**	**790**	**122,689**
Accumulated depreciation							
Balance as at 1 Jan. 2018	-	1,100	7,420	2,933	2,569	345	14,367
Depreciation Charge for the year	-	273	1,292	2,178	472	113	4,328
Disposals	-	-	**(57)**	-	-	-	(57)
Balance at 31 December 2018	**-**	**1,373**	**8,655**	**5,111**	**3,041**	**458**	**18,638**
As at 31st December 2017	**70,000**	**10,830**	**3,110**	**4,951**	**3,592**	**444**	**92,927**
As at 31st December 2018	**70,000**	**10,557**	**3,316**	**15,970**	**3,876**	**332**	**104,051**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Fair Value

The directors consider that there is no material difference between the fair values and the carrying value of the Sacco's financial assets and liabilities, where fair value details have not been provided.

28. Contingent Liabilities

There are no significant contingent liabilities as at 31st December 2018.

29. Events After Reporting Period

There are no significant events after the reporting period which have been reported in these financial statements.

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