HARAMBEE
SACCO
Empowerment. Development. Security

# 2022 CS/1916

# ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

# Introducing 52 WEEK SAVINGS CHALLENGE

**A money saving challenge that will help you save money to reach your short or long-term financial goals.**

### Features

- Any member of Harambee SACCO with mobile banking is eligible to join the challenge
- 8% interest.
- No charges.
- Easy and quick opening of account through *357#.
- Easy depositing using Paybill 525200.

## How To JOIN the 52Week Savings Challenge

- Dial ***357#**
- Go to Option 2 (**My account**), then Option 7 (**Member Accounts**)
- Option 3 (52week savings challenge)
- Then option 1 (**Apply for 52 week Savings Challenge**), then 1 again to accept terms and condition
- Enter PIN, then option 1 (to confirm your application).
- At this point, you will get a prompt to deposit Kes. 50 from M-Pesa, and input your M-PESA PIN.

## How to deposit #52 Week Savings Challenge via USSD *357#

- Dial *357#,
- Go to Option 4 (**Payments and Deposit**),
- Then Option 1 (**FOSA Deposit via M-Pesa**),
- Option 2 (**52WeekSavings Challenge**), then you will be prompted to input the amount and M-Pesa PIN to complete the transaction.

HARAMBEE
SACCO

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Development
Security

THE SACCO SOCIETY REGULATORY AUTHORITY
RECEIVED
31 JAN 2023
(SASRA)
P. O. Box 25089-00100, NAIROBI

# HARAMBEE DT SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED
# CS/NO:1916

# ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2022

APPROVED
for publication and presentation
to AGM or ADM subject to observations issued
03 FEB 2023
SIGN:......................................
THE SACCO SOCIETIES REGULATORY AUTHORITY

Mwangi & Kamwara Associates
Certified Public Accountants (Kenya)
Ramco Court C15
P.o Box 34458- 00100 Nairobi

# CORPORATE PHILOSOPHY

## OUR PURPOSE

To empower members to live with dignity and accomplishment throughout their lives.

*Empowerment is about members experiencing more joy of saving, having peace of mind because they are confident to face financial uncertainties; and satisfaction and fulfilment because they are part of a SACCO that cares and provides them with opportunities for advancement and personal growth.*

## OUR VISION

To be the most trusted SACCO

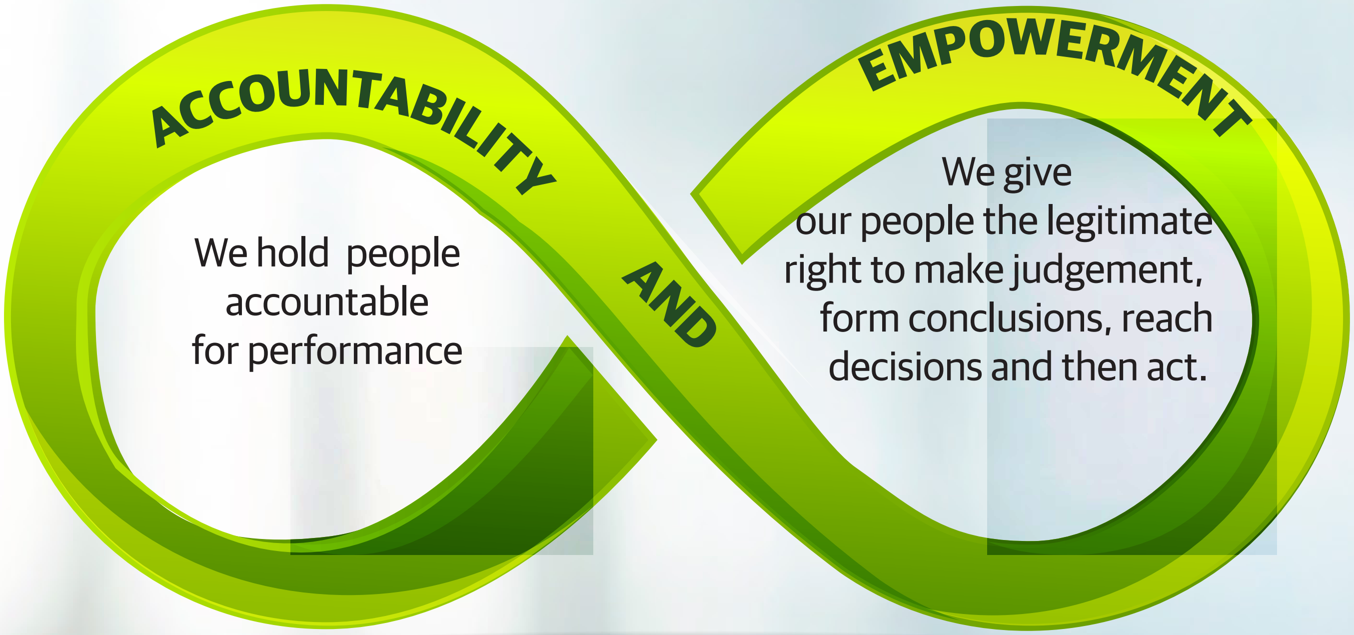
## OUR MOTTO

Your future Our Concern

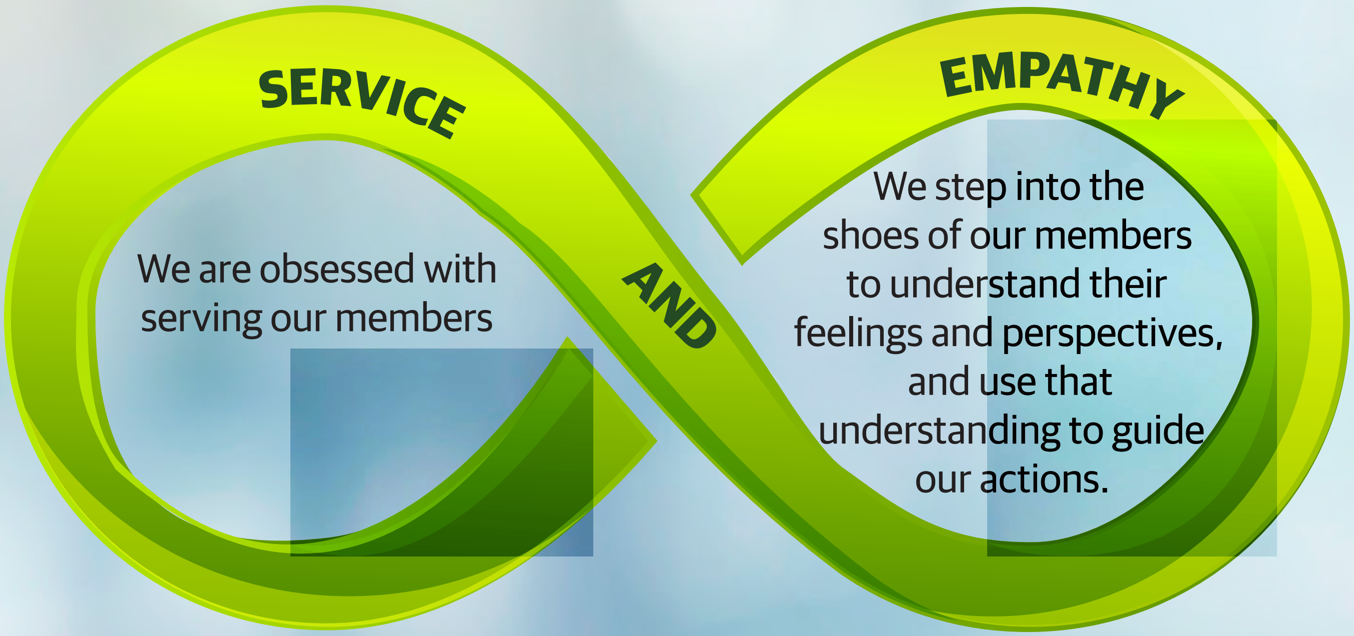
## OUR THEME YEAR 2023

This is the turning point!

# OUR VALUES




*Accountability and Empowerment*




*Service and Empathy*

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# SOCIETY INFORMATION

**BOARD OF DIRECTORS**

| | |
|---|---|
| Mr. Macloud Malonza | National Chairman |
| Mrs. Millicent Simiyu | National Vice Chairman-From 20th December 2022 |
| Mr. Maurice Okoth | National Vice Chairman- Up to 15th August 2022 |
| Mr.Charles Konzolo | National Treasurer -Up to 23rd November 2022 |
| Ms. Rollah Gatwiri | National Treasurer -From 20th December 2022 |
| Ms. Rollah Gatwiri | National Secretary -Up to 20th December 2022 |
| Col Stephen Nganga | National Secretary -From 20th December 2022 |
| Ms. Mary Njuki | Director - Up to 10th August 2022 |
| Mr. Antony Akama | Director |
| Mr. Luka Kiprono | Director |
| Mr. Philip Mitei | Director |
| Mr. Jacton Winda | Director |

**SUPERVISORY COMMITTEE**

| | |
|---|---|
| Mr. Joseph Yamo | Chairman |
| Mr. Charles Osore | Secretary |
| Mr. Joseph Bwire | Member |

**CHIEF OFFICER**

Dr. George Ochiri, MBS — Chief Excecutive Officer

**REGISTERED OFFICE**

LR No. 209/9966
Harambee Co-operative Plaza
P.O. Box 47815-00100
Nairobi, Kenya.

**INDEPENDENT AUDITOR**

Mwangi and Kamwara Associates
Certified Public Accountants (K)
P.O. Box 34458-00100
Nairobi

**PRINCIPAL BANKERS**

Co-operative Bank of Kenya Limited
Ukulima House Branch,
P.O. Box 74956-00200,
Nairobi

Kenya Commercial Bank Limited
KICC Branch
Nairobi

HARAMBEE SACCO

Empowerment Development Security

P.O Box47815 - 00100 Nairobi
0709 – 943 000/100
Email: info@harambeesacco.com
Website: www.harambeesacco.com

Ref. No. HAR/ADM/2023

1st February 2023

**TO ALL DELEGATES,**
**HARAMBEE DT CO-OPERATIVE SAVINGS AND CREDIT SOCIETY LIMITED**

Dear Sir/Madam,

**RE: NOTICE OF THE YEAR 2023 ANNUAL DELEGATES MEETING.**

Notice is hereby given that the **52nd Annual Delegates Meeting of Harambee DT Co-operative Savings and Credit Society Limited** will be held on **Monday, 20th February 2023** from **9.30 a.m.** at **Safari Park Hotel, Nairobi for the transaction of the following business.**

1. To read the notice convening the meeting and determine if a quorum is present.
2. To receive the Chairman's Report.
3. To receive the Address by the Guest of Honour.
4. To adopt and confirm Minutes of the 51st Annual Delegates Meeting held on 14th February 2022 and discuss Matters Arising therefrom.
5. To receive and adopt the Audited Accounts for the year ended 31st December 2022 and Distribution of Surplus for the year 2022.
6. To receive the Treasurer's Report and to approve the year 2023 Revised Budget and Proposed Budget for year 2024.
7. To receive the Supervisory Committee's Report.
8. To pass Resolutions.
9. To appoint Society's Auditors for the year 2023.
10. Elections.
11. Any Other Business (for which 15 days' notice has been given).

**Yours faithfully,**
**For & on behalf of Harambee Sacco Society Ltd**

**COLONEL STEPHEN M. NGANGA**
**HON. SECRETARY**

c.c. **COMMISSIONER FOR CO-OPERATIVE DEVELOPMENT & MARKETING**
**NSSF BUILDING**

**CHIEF OFFICER,**
**CO-OPERATIVES**
**NAIROBI COUNTY**

**DIRECTOR OF CO-OPERATIVES,**
**NAIROBI COUNTY**

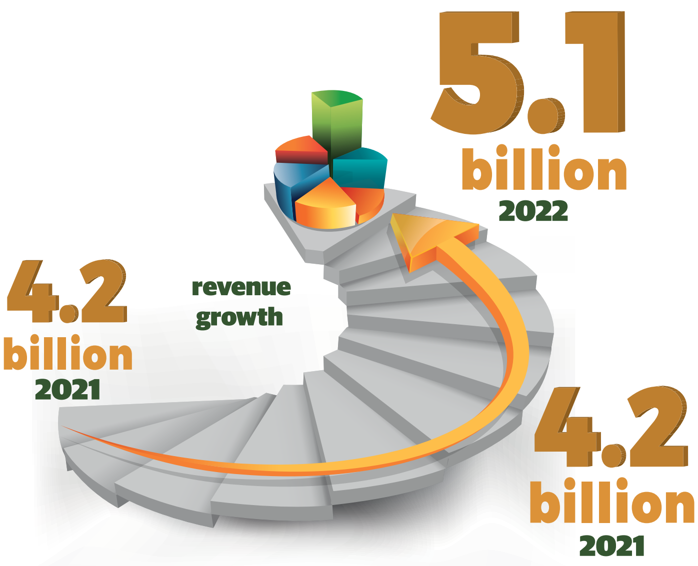
**SUB-COUNTY CO-OPERATIVE OFFICER – STAREHE**
**NYAYO HOUSE.**

NOTE:

Registration of Delegates shall be done at the venue of the meeting (Safari Park Hotel Nairobi) on the same day starting at 6.30 am. Transport shall be available on the same day at Harambee Co-op Plaza Nairobi from 6.00 a.m.

Mr. Macloud Malonza

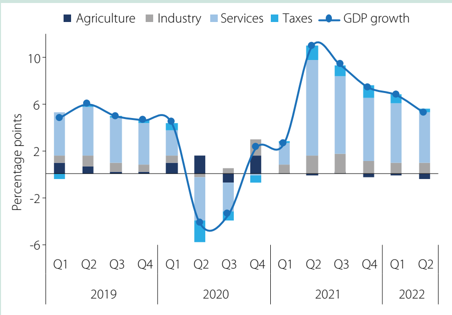
# CHAIRMAN'S STATEMENT:




Harambee DT Sacco broke its own target ceiling of Kes. 4 billion to hit an all-time high of Kes. 5 billion.

## The State of Kenya's Economy

**Services continue to lead the rebound (contributions to real GDP y/y growth, percentage points)**




*Source: Kenya National Bureau of Statistics and World Bank staff calculations*

**6%**

How Kenya's GDP economy continued to rebound from the pandemic in 2022 increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry.

WORLD BANK GROUP

**4.3%** **Kenya currency depreciating against the US Dollar**

2020 and 2021, a trend that continued in 2022

## Dear Shareholders,

On behalf of the Board of Directors, I hereby present the annual report and financial statements for the year ending 31st December 2022.

After the numerous waves of the Covid – 19 pandemic, came the Country's 2022 General Elections camouflaged by its usual political uncertainties and chicaneries, Yet despite all these factors that were at play, Harambee DT SACCO broke its own target ceiling of Kes. 4B to hit an all-time high of Kes. 5B. Thanks to our robust strategy, dedicated membership and a resilient and dedicated board and staff.

## Economic Outlook 2022:

According to the World Bank, Kenya's economy continued to rebound from the pandemic in 2022 with real gross domestic product (GDP) increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry. This recovery was dampened by global commodity price shocks, the long regional drought, and uncertainty in the run up to the 2022 general elections.

The World Bank report further noted that the 2022 drought, coupled with conflicts at the international arena, led to an increase in the cost-of-living throughout the country. The agriculture sector contracted by 1.5% in the first half of 2022 and, with the sector contributing almost one fifth of GDP, its poor performance slowed GDP growth by 0.3%.

The Kenyan Shilling depreciated in 2020 and 2021, a trend that continued in 2022, with the currency depreciating by 4.3% against the US Dollar. Despite the Central Bank of Kenya projections that Inflation was projected to oscillate in the target range of 2.5% to 7.5%, a combination of the local, regional and global dynamics at play, saw the country's inflation rate hitting a high of 7.9%

## Outlook and Risks

Kenya's medium term growth prospects remain positive with GDP projected to grow by 5.2% on average in 2023–24 notwithstanding current global and domestic shocks. The baseline assumes robust growth of credit to the private sector, continued low COVID-19 infection rates, a near term recovery in agricultural production, and high commodity prices favorable to Kenyan exports. These developments are in turn expected to catalyze private investment to support economic growth over the medium term.

It is against this economic growth projected backdrop, that the Board and the Management are working on ways and systems that will see Harambee DT SACCO move a notch higher in 2023, a factor whose ripple effect will ultimately be felt by the shareholder cum customer.

## Achievements:

Despite the numerous challenges recorded in the year 2022, the Society was yet again at its best in terms of performance. From Kes. 3.2B in 2020, the Society moved a rung higher to hit Kes. 4.2B in 2021, but the continuous trend didn't stop there, Harambee DT SACCO shuttered its revenue generation history with an all-time high collection of Kes 5.01B in 2022.

In order to sustain our growth trajectory going forward, the Board of Directors, is putting systems in place that will ensure this growth curve is not only sustained but improved through the deployment of an agile, dynamic and resilient strategy.

## Governance:

As the Chairman, I must confess that it is gratifying to be able to state that the Board and its committees have performed exceedingly well, in not only fulfilling their core mandate of delegating and supervising the running of the institution, but more importantly in supporting the management in meeting and surpassing their targets as set out in the 2021 – 2025 Strategic Plan.

Some of the core activities that we undertook in 2022 with the objective of spurring growth and development of our institutions include but are not limited to:

1) **Delegate training**: The Society conducted a robust and intensive training in Mombasa involving all delegates across the country. The intention and design of this training was to bring them up the speed with the vision, mission and mandate of the institution. A goal that was achieved with gusto. Not forgetting that we also took them through personal finance management and ICT applications at Harambee DT SACCO.


*Harambee DT SACCO delegate training group one at Sarova Whitesands Beach Resort & Spa, 4th-8th May 2022.*

2) **Staff training**: All staff were taken on a study tour in Mombasa where the issue of Mteja Kwanza was core. As a strategic pillar towards institutional strengthening, the training was devised to help build synergy and purpose in all staff, a goal that was achieved going by the performance.

3) **Rationalization of the Branches**: This was one of the toughest tasks that the Board undertook to accomplish. Considering all aspect of performance and regional balance amongst other factors, the Board was able to reduce the number of Delegates from 484 to 357 a herculean task, especially when one considers the latest inspection report that showed there was over representation leading to high running costs.

4) **Membership recruitment**: Survival of any co-operative institution is pegged on its annual recruitment of new membership. On this account Harambee DT SACCO was able to inject 6,276 new members up from 4,398 in 2021. The Society also created a Membership Relationship Section whose core mandate is the member – from inception to exit. Going forward, the Board and Management are putting every strategy at its discretion to ensure that we hit our 2025 target of 86,502 happy members.

## The Way Forward:

The Board is looking at the year 2023 with tons of optimism. The task ahead is tough, but our heritage spanning over 50 years, our cumulative experiences, our talents and the deep desire to forge ahead is the combustion oil driving us forward and at break-neck speed.

Our strategic focus remains Membership growth and Deposit Mobilization. In this regard, every effort will be made towards the accomplishment of these dual goals going forward.

## Acknowledgement:

It is important to note that during the year 2022, Harambee DT SACCO saw the retirement of three Directors namely Ms. Mary Njuki, Mr. Maurice Okati (former National Vice Chairman), and Mr. Charles Konzolo (our immediate former National Treasurer). On behalf of the Board of Directors and myself, I wish to take this opportunity to most sincerely thank Madam Mary Njuki, Mr. Okati and Mr. Konzolo for their dedication and diligence in serving members of the Society over the years and now as they take their leave from active duty, I want to wish them nothing but contentment, happiness and good health.

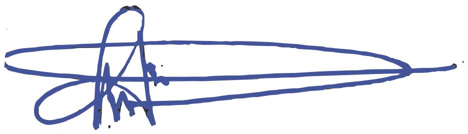
Nonetheless, I would like to sincerely appreciate my colleagues in the Board for their commitment and diligence in undertaking their roles and obligations during the year under review. They have shown a rare streak of focus and dedication in guiding and supervising the management in their quest of the objective of this great institution.

The Directors combined skills, wisdom and experience have added great value to Harambee DT SACCO and contributed in no mean account towards the achievement of the goals that were set for the year under review.

In summary, on behalf of my Board, I most sincerely wish to take this opportunity to thank our Ministry, our regulator SASRA, the Apex bodies, our stakeholders, all the delegates, and staff of Harambee DT SACCO for their continued support. The future is bright and promising only if we continue working closely together for the better good of our Society.

Thank you.

God bless you and long live Harambee DT SACCO.



**MR. MACLOUD MALONZA, MBS, HSC**
**NATIONAL CHAIRMAN**

## BOARD OF DIRECTORS

Mr. Macloud Malonza
National Chairman

Mrs. Millicent Simiyu
Vice Chairperson

Ms.Rollah Gatwiri
National Treasurer

Col Stephen Nganga
National Secretary

Mr. Antony Akama
Director

Mr. Luka Kiprono
Director

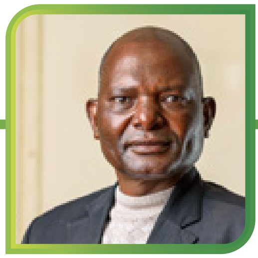
Jackton Winda
Director

Mr. Philip Mitei
Director

Dr. George Ochiri
C.E.O.

## SUPERVISORY COMMITTEE

Mr. Joseph Yamo
Chairman



Mr. Charles Osore
Secretary

Mr. Joseph Bwire
Member

# HARAMBEE TUME-OPEN BOND

## Roundi Hii
## KILA MTU ANAWEZA JOIN

### MEMBER CATEGORIES

1. Members under check off arrangement.
2. Individuals (Employed, SMEs, Diaspora members, Wafanisi, Spouses and Children of our members).
3. Groups (Chamas), Registered Community Based Organizations (CBOs) and Non-Governmental Organizations (NGOs).
4. Corporates.


Dr. George Ochiri

# CEO'S STATEMENT:

## Preamble

With ***"Mteja Kwanza"*** as our overriding theme for FY2022, the Society was able to deliver a robust financial performance driven by the fact that we had put our member at the fore of our business and operational focus. To mention but three key parameters, our total revenues grew from a low of Kes. 4.22B in 2021 to an all time high of Kes. 5.01B in 2022. we also broke the ceiling, in 2021, In terms of our Total Assets, stood at Kes. 34.6B, but in a span of twelve months, we had grown to Kes. 37.01B. And finally with regards to Loans and Advances, an area that is core to our business, we also moved a notch higher. From a Kes. 24.38B in 2021, the SACCO gave members loans and advances worth Kes. 27.23B. To cap it all, our Net surplus before tax grew from Kes. 396.7M in 2021 to Kes. 532.7M in 2022. Our strategic theme for 2023 is ***Towards living with dignity***.

**We now have 98% of our services and products available on the self-service mobile platform. Our endeavor going forward is to ensure that Harambee DT SACCO is 100% mobile operated and we are continually putting systems in place to achieve this set goal.**

## Strategic Plan Review

Pegged on two key performance target as elucidated in our 2021 – 25 Strategic Plan, namely: Institutional Strengthening and More services on our mobile services platform. Our sights were set on the prize and nothing would deter our determination as an institution to move forward. As that saying goes, "***a smooth sea never made a sailor***", we began the FY2022 on a high note. Our journey of a thousand nautical miles began with the single mission that by the end of that year we would be miles closer to our thematic destination which was ***"Institutional Strengthening"***. The gist of which was to create awareness and appreciation of their institution and its mission going forward as defined in its strategic Plan.

## Human Capital

Coming from a background of aging staff, the Society has been able to reduce the age of all staff to from 50 years and above to an average of 36years. More effort is still being put in this area with a view of reducing the average staff age to about 25 to 30 years. We envision that the learning curve with hit its optimum in 2023. In the year under review, the Society was able to contract Silicon Consulting Group for an intensive a one week staff training in Mombasa. All 139 staff of the Society were trained and equipped with the adequate information, a feat that can best be exemplified by the results at the close of the year 2022. I have observed that even the average age of the delegates is declining.

## Recognition of Top Savers

Coming in the week of the delegates education, the Society then held regional breakfast meetings with close to 1,000 top savers. At the heart of these breakfast meetings, the Board and Management held comprehensive interactions with our members giving them insights into their Society while absorbing critical feedback from them on areas of improvement and the best way forward. The top savers also made valuable suggestions including Medical Insurance scheme, which we have since implemented.

## Mobile Application Services

Having started at the height of the Covid-19 pandemic, our focus with regards to moving our services to the mobile platform was crowned in the FY2022. We now have 98% of our services and products available on the self-service mobile platform. Our endeavor going forward is to ensure that Harambee DT SACCO is 100% mobile operated and we are continually putting systems in place to achieve this set goal.

## Expectations for 2023

As we set sail in 2023, our strategic focus will be three key pillars: Institutional Strengthening, Eliminating Waste and Aligning the Structure to the new Harambee DT SACCO operating model and finally, the operationalization of the open bond. Under these three broad areas, we will in a nutshell seek to recruit 15,000 new members, increase annual revenue to kes 6.5Bn and increase Total Assets to Kes 40Bn. We also expect to raise customer and staff satisfaction index, and enhance capacity of Board, Delegates, Members and staff.

## Conclusion

On behalf of the Management, I want to thank the Chairman and his entire Board for their continued support. I want to thank the entire staff for their dedication and support and above all, I want to thank the delegates and all members for keeping their faith. Our strategic theme for 2023 is ***"Towards Living with Dignity"***, as a society we wish to ensure that all our members will live and abound in their endeavors, anchored in the knowledge and faith that as long as they are members of Harambee DT SACCO, they will never walk alone.

Nothing beats a dedicated and focused man. Our Future as Harambee DT SACCO is super bright. Our opportunities have exploded, and nothing can hold back this Society from growing beyond our wildest dream.

**For and on behalf of**
**Harambee DT SACCO Society Ltd**

**DR. GEORGE OCHIRI, MBS.**
**CHIEF EXECUTIVE OFFICER**

# SeniorManagement Team

Dr. George Ochiri
Chief Executive Officer

Michael Musyoka
Risk & Compliance

Victor Joe Ireri
Operations & Credit Administration

Fridah Njeru
Business Development & Marketing

Mr. John R. Munene
Finance Strategy & Investments

Daniel Tabut
Information Communication Technology (ICT)

Elizabeth Obel
Human Resources & Administration

Francis Kitonyi
Audit

David Awuor
Procurement

Kabukuru Gichuki
Corporate Communication

Renson Mwandoe
FOSA

Gladys Gichohi
Legal Services

# TREASURER'S STATEMENT

**"I encourage members to invest more in share capital in order to earn more returns in future.'**

Distinguished Guests, Chairman and Board of Directors of Harambee DT SACCO Society Ltd, the financial year just completed has maintained a significant and improved financial performance close to the record high of 2021. The Total Revenue grew to Kshs.5.012Billion from Kshs. 4.127Billion in year 2021, a growth of 19 % compared to the previous financial year. These results are attributed to continued product differentiation, training and education for Members and Delegates to ignite product knowledge, specific marketing drives and recruitment that has increased the patronage of the Society's products. Most of the key financial indicators recorded growth as highlighted below.

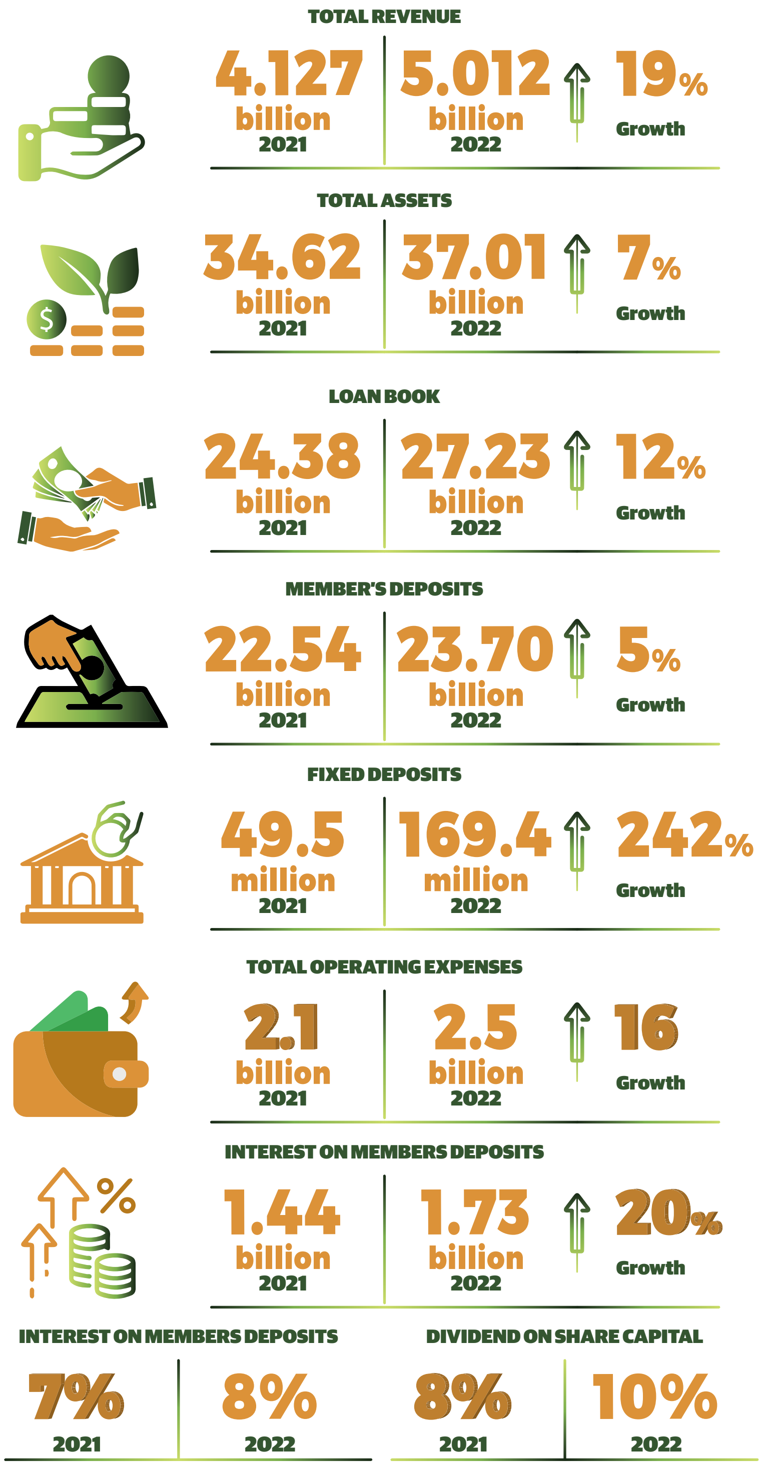
## Key Financial Performance Highlights

### (a) Growth in Asset Base

The Society's Total assets increased by Kshs. 2.39 billion from Kshs.34.62 billion recorded in year 2021 to Kshs. 37.01 billion in year 2022 representing a growth rate of 7%. The increase is attributed to growth of the loan book by Kshs.2.853 billion from Kshs.24.38B in year 2021 to Kshs.27.23B in 2022. The Society is still cognizant and in pursuit of strategic initiatives of improving customer experience, diversifying the product portfolio and re-engineering of key processes in an effort to build more fortune and Members' returns.

### (b) Loans and Advances to Members

In a rebounding economy, SACCO's lending model focused on offering a wide range of credit facilities efficiently and affordably that helped shore up the growth. Its total outstanding loans with members grew by 12 percent from Kshs.24.38 billion to Kshs.27.23 billion. The Society's Loan Book contributed 82.8% of the Income. The ratio of members' loans to Total Asset increased from 70% in 2021 to 74% in 2022. Although the




Society recorded significant growth on loan book, members appetite for loans was quite high and the management ensured that there was no backlog. Loans were and continue to be disbursed as the applications are received. The Board will continue to implement strategies that will enhance growth of internally generated funds hence improve Society's liquidity status both in the short and long term. I call upon Members to embrace these initiatives once they are rolled out.

### (c) Members' Deposits and Savings.

Members' deposits and savings grew from Kshs.22.54 billion reported in year 2021 to Kshs.23.70 billion in 2022 representing a growth KShs.1.16 billion or 5%. Fixed deposits accounts recorded the highest growth among savings accounts increasing from kshs49.5million in 2021 to Kshs169.4 million in 2022 a growth rate of 242%. The Society's core business is savings and credit. I call upon members to support the Society by embracing and increasing the savings culture. This will enhance the Society's liquidity and reducing reliance on external funding.

### (D) Income Statement Analysis

#### I. Total Income

The 2022 Income generation was historic in nature and at its best growing with a whooping Kshs. 782.85 million to register a Total Income of Kshs.5.012 billion compared to Kshs.4.229 billion in year 2021, a 19% increase. This is the first time the Society has crossed the Kshs. 5billion mark, a historic achievement. Compared to the strategic plan target, this was 98% achievement. The growth was driven by other operating income and growth in interest income from members loans. The Management will continue to keep up the growth momentum as we match towards attaining a total income target of KShs. 6.5 billion in year 2023.

#### II. Operating Expenses

The Society's total operating expenses increased by 16% from Kshs.2.0 billion in 2021 to Kshs.2.5 billion in 2022, driven by actualization of planned growth strategies. Interest on members deposits increased by 20% from Kshs1.44billion in 2021 to Kshs1.73B in 2022.

#### III. Surplus & Distribution

The Society performance improved to book a surplus after tax of Kshs. 444.61 million in year 2022 compared of Kshs. 362.81 million reported in year 2021. These results were arrived at after netting off interest on members' deposits of Kshs. 1.738 billion. The Society proposes to pay Interest on members deposits at a rate 8% for year 2022 compared to 7% in year 2021 and a dividend on share capital at 10% compared to 8% in year 2021 an improvement of 25%. Total pay payout to members being Kshs.1.955billion compared to KShs1.613billion in year 2021, representing 39% of the Total Income and growth rate of 21% . I encourage members to invest more in share capital in order to earn more returns in future.

## (e) Compliance with Prudential Standards

The Society's compliance with minimum prudential ratios is as shown below. The Society has continued to grow the Institutional Capital now at 5.3 % against the requirement of at least 8 %. Our Asset base is at Kshs.37.01 billion, meaning the Society should be owning in excess of Kshs.3 billion to meet this ratio, noting that this is a moving target that levels with growth of Asset Base.

| RATIOS | STDs | 2022 | 2021 |
|---|---|---|---|
| Capital Adequacy Ratios | | | |
| Core Capital / Total Assets | ≥10% | 11% | 11% |
| Core Capital / Total Deposits | ≥8% | 17% | 17% |
| Institutional Capital / Total Assets | ≥8% | 5.3% | 5.1% |
| Non-Earning Assets/Total Assets | <10% | 16% | 19% |
| Equities & Investments / Deposits | ≤ 5% | 8% | 8% |
| Net Loans / Total Assets | 70-80% | 74% | 70% |
| Deposits & Savings / Total Assets | 70-80% | 65% | 65% |
| Liquidity Ratios | | | |
| Liquid Assets/Savings Deposits & Short Term Liabilities | ≥15% | 15% | 12% |
| Liquid Assets/ Deposits and Long-Term Liabilities | | 5% | 3% |
| External Borrowing/ Total Assets | <25% | 10% | 10% |
| Operating Efficiency Ratios | | | |
| Total Expenses / Average Assets | | 12% | 10% |
| Interest on Members' Deposits / Total Revenue | | 35% | 34% |
| Rate on Interest on Members' Deposits | | 8.0% | 7.0% |
| Dividends Rates on Members' Share Capital | | 10.0% | 8.0% |
| Total Delinquency Loans / Gross Loan Portfolio | ≤ 5% | 1.4% | 1.4% |

The critical ratio worth noting is the Institutional Adequacy as measured by Institutional Capital to Total Assets. As a rafter of measure, the Management is proposing an incremental Rate Dividends on Share Capital and a ceiling of 8% on Interest on Deposit for the next three years in order to be able to retain and built reserves to meet this critical ratio.

**MS. ROLLAH GATWIRI**
**NATIONAL TREASURER**


HARAMBEE SACCO
Empowerment. Development. Security
Begin your journey to financial freedom through
MEMBER SAVINGS ACCOUNTS SUCH AS:
1. Fedha Fixed Deposit Account
2. Toto Junior Account
3. Business Account
HARAMBEE SACCO
1234 4321 5000 7654
HOLDERS NAME
0001235367
04/22
VISA


DIAL
*357#
to access our online loans up to a maximum of
Ksh 1,000,000.
BOSA Loans
• Karibu loan
• Development loan
• Emergency loan
• School fees loan
• Jisaidie Top-up Loan
• Inuka Loan
HARAMBEE SACCO
FOSA LOANS/ ADVANCES
M-Boosta Loan
Salary in Advance
Salary Advance
Finje Chap chap
Jisort Advance
HARAMBEE SACCO
Empowerment. Development. Security

# SUPERVISORY COMMITTEE REPORT

**"Technology remains the biggest business enabler. To exploit opportunities offered by ICT the committee recommends; leveraging on Big Data, Investing more in Cyber Security and Streamlining all the processes.**

## 1. Fund Mobilization

Time is ripe for members to embrace the society as their preferred financial partner. For this to come to fruition, there is need for the society to go all out in doing a share drive that will be anchored on assured dividend returns on share capital. Members to be encouraged to plough back their earnings (Dividend capitalization) all these will go along way in ensuring improved liquidity. Other interventions recommended are: -

a. There is urgent need to increase reserves so as to improve institutional capital for the society. A balanced SACCO must be stricken by the society between dividends payout and reserves.

b. Sell salary accounts to members/other partnerships to increase non-funded transactions income to enhance payment of dividend/interest.

Members to Patronize SACCO products through transactions to improve financial performance of the society and improve their own livelihoods based on the following indicators: -

a. **Savings** – To address the asset base of the SACCO which is a performance yard stick and indicator used by the regulator, and addresses liquidity the members need to increase their savings in terms of deposits.

b. **Loans** – increasing the level of operation addresses the mission of the organization and cooperative principles in improving the welfare of members.

c. **Dividends and interest** – return on investment to members which is a key criterion for performance measurement thus the need for continuous improved performance.

## 2. Loans/Credit Management

During the year under review, the Society loan book closed at Kshs. 27,234,759,386 compared to the previous year which closed at Ksh. 24,380,868,205 an increase of 12% this is notable improvement.

### Loan Status

| No | Classification | No of acc | Outstanding loans | provision % | Amount |
|---|---|---|---|---|---|
| 1. | Performing | 141,921 | 26,513,101,651 | 1% | 265,409,977.40 |
| 2. | Watch | 9,443 | 770,956,256 | 5% | 37,396,325.74 |
| 3. | Substandard | 4,455 | 326,797,992 | 25% | 80,577,910.93 |
| 4. | Doubtful | 277 | 20,351,763.29 | 50% | 10,175,634.87 |
| 5. | Loss | 284 | 38,161,763.29 | 100% | 38,161,763.29 |
| **Total** | | **156,380** | **27,669,368,932** | | **433,715,725** |

From the financial statement laid before the Annual Delegates meeting last year the provision for loans delinquency was Kshs. **416,979,131** compared to the current provision of Kshs. **433,715,725.** While the increase is attributed to the growth of the loan book, the Committee implores upon the management to continue putting efforts on loan recoveries to reduce this provision.

During the year under review the Society external borrowing attracted an interest expense of Kshs364M. It is the opinion of the committee that going forward, before leveraging the society needs to look more in the direction of internal sources of funds for financing thus reducing the cost of borrowing and improving liquidity by;

a. Efficient and effective loan recovery and activation and member recruitment.
b. The society needs to limit the use of borrowed funds as this curtails SACCO sustainability in the long run
c. The SACCO needs to increase the sale of Fixed deposit accounts and leverage on other saving products, as this is a fertile source of funds to cushion our liquidity.
d. Adequate capitalization (building financial capability) and share capital increase.

## 3. FOSAs

During the year under review, reports received from various FOSAs indicate that internal controls were sound as prescribed but not in practice. The committee established that there was a gap thus it is in the interest of the SACCO to address the gaps.The Committee is also concerned with lack of an asset register in all our branches thus we could not tie down the assets to the various branches. We recommend the following;

a) Manning levels must be adequate with competent staff sourced either internally or externally and the supporting platforms operational.
b) There is need for staff rotation in the FOSAs in order to improve the quality of services.
c) Institutionalization of asset register in all branches.

## 4. Technology

Technology remains the biggest business enabler and as such the society must continue to improve and expand its digital service delivery and make it more customer interactive. Technology remains key in business innovations and product development and as such the society ought to invest further in technology with a view of enhancing its competitive advantage. During the year some of our products have moved to the ICT platform which is commendable. To further exploit the opportunities offered by ICT the committee recommends the following;

a. **Leverage more on Big Data**; Data should be utilized in understanding the financial behavior/trends of each member so that the marketing department can direct customer specific product sales to individuals. New product sales can also be done based on the members' new data developments. A combination of data and Artificial intelligence will go a long way in enhancing business and product development.
b. **Invest more in Cyber Security**. With more products and services consumed on mobile and internet, there is an increased cyber security risk. Harambee should spare no effort to prevent, detect and remedy all breach efforts. It's also important that all employees understand cyber security risk preparedness and detection mechanisms and further investment ought to be done in developing staff capacity in the following key distinguished skills e.g., Database Administration, Data Analytics and Cyber Security.
c. **Streamline all the processes**. Technology needs to be backed up with efficient and high throughput processes, and members educated on the processes thereof.

## 5. Corporate Governance

From the previous report we have recommended that corporate governance audit be carried out to give together assurance on the management of the SACCO unfortunately this is yet to be implemented yet corporate governance is the heart of decision making and management to enable the organization to meet specific objectives: -

a. Wealth Creation
b. Responsive and accountable
c. Recognize and protect stakeholder's rights
d. Is legitimate and managed with integrity, probity and transparency
e. Recognizes and protect stakeholder's rights

## 6. Performance of the Board

In order to evaluate performance, it is necessary to introduce certain performance standard with which the Board can be assessed with regard to achievement of the standard vis a vis the actual performance from the last year's report.

We recommend introduction of performance evaluation matrix to enhance the current skills. The Board should put in place a criteria to improve the skill mix by introducing certain required competencies and skills necessary for operation of certain key committees e.g. Audit Committee.

## 7. Members Status

During the year under review the number of members in the society was **79,641** compared to **74,274** members in the previous year being an increase of 5367 members in a period of one year. It is now our duty to keep giving good services to our members so as to retain and continue recruiting more for the growth and prosperity of our SACCO. This committee further notes that there is urgent need to market Wafanisi products with a view of retaining members with their deposits and attracting even more. The committee also noted that the number of dormant accounts had increased to 2,296 and calls upon management to follow up dormant members and encourage them to reactivate their accounts through resumption of deposits/savings.

## 8. Communication

In the world of business communication and specifically member feedback is key in growth and product development. Based on our business model there is need for continuous feedback and update to members in the following areas;

a. **Loan** – Where members have applied for loans the SACCO needs to go a step further and give feedback to those who do not meet the threshold with a view of finding an amicable solution to avail funds to the members
b. **Beneficiary update/records** – There is need for the records officer to continuously communicate to members to update their beneficiaries on quarterly basis. This will reduce the number of sink fund claims rejected.
c. **Sink fund claims** – Communication to members upon sink fund claim rejection or delay reasons has been lacking. Going forward the departments concern must always maintain communication with all the affected members explaining the reason for claim/loan rejection. This will go a long way in mending the institutions image.

## 9. Finance Department

Generally, the financial performance of the SACCO has improved comparably with the past financial years. However, there are still regulatory compliance issues that the SACCO must strive to comply:

a. Institutional capital/total assets
b. Non-Earning Assets/Total Asset

The Committee strongly recommends that the SACCO deliberately takes all appropriate measures to comply with all the ratios to improve performance. The Committee is encouraged by the current performance and wishes to point out with sustained growth in financial performance more profits should be appropriated to boost the reserves.

## 10. Land Project and Property

The society's land projects valued at Kshs.629,317,479.00 there is need for the management to ascertain the location of each parcel, size and the value thereof as it's the opinion of this committee that some of the properties could be undervalued. The committee is also concerned with the delayed disposing of the Nyali project which has taken a bit too long to come to fruition. The committee implores upon the board of directors to move with speed to dispose of the property.

## 11. Records Management

In the previous report we had recommended the implementation of EDMS in all the branches. This has been covered with the acquisition and installation of bulk filing units with a capacity of over 350,000 member files, development of files movement module to track file movement. The committee also observed the following;

a. **Archive**

The society's archive is very congested with historical member records, some records have been maintained for a very long time. The committee recommends that the society formulates a policy on the disposal of the records.

b. **Receiving and dispatching of records**

This is a records management function. In order to avoid misplacement of records, all mails and records to be received and dispatched by records staffs.

c. **Transfer of loan forms and update from the branches to HQ**

The committee noted delays in receiving the update and loan forms from the branches and recommends strict adherence to the TAT of one week. Some of the branches delay even up to one month hence creating filing and scanning backlog.

e. **Filing of member records**

Member document filing has remained a challenge, with many documents being generated through daily transactions in the SACCO e.g. claim forms, loan forms, update forms, variation forms. There is need to consider allocating the department additional sources in terms of man hours to clear the backlog ASAP.

In order to enhance records security there is need to enhance the security of the Archive and record store with biometric locks.

## 12. Human Resource/ Staffing

During the period under review the society had a total of 139 employees which was an increase from the previous years 123 this was a necessary increase in order to align the SACCO towards achievement of its long-term strategy. The society should continuously endeavor to recruit only on critical need basis.

## Conclusion

In our opinion, based on our monthly audits carried out in the year 2022, the SACCO's internal control environment was adequate in preventing the occurrence of frauds and errors. Despite the challenges the SACCO faced in the year 2022, a lot of progress has been made towards the achievement of the SACCO's purpose, corporate vision and strategic plan.

We take this opportunity to express our sincere gratitude to the Board of Directors, management and staff for the cooperation and support accorded to us in the performance of our functions as a committee.

Thank you for giving us the opportunity to serve you. May God bless you and may God bless HARAMBEE DT SACCO.

**MR. JOSEPH YAMO**
**CHAIRMAN -SUPERVISORY COMMITTEE**

# FINANCE, STAFF AND ADMINISTRATION COMMITTEE

**"The Staff work/life balance and general welfare remains a top priority of the SACCO, as a happy staff is an engaged employee.**

## The Human Capital Management

The value of any business is a function of how well the financial capital and the intellectual capital are managed by the **human capital**. As Jim Collins said, "**Great vision without great people is irrelevant**." At Harambee DT SACCO, the key function of our Human Capital is to ensure that the SACCO is aligned towards the achievement of her Strategic intent in the most effective and efficient manner through; Recruitment & Selections, Training & Development, Safe & Healthy Work environment, Performance Management, Talent & Retention Management, Staff Welfare, Salaries and Benefit Administration.

The Society's total staffing level of 142 staff are distributed in the following categories:

| S/No | Category | No. of Staff | | |
|---|---|---|---|---|
| | | 2021 | 2022 | 2023-Feb |
| | | | | |
| 1 | Permanent & Pensionable | 111 | 132 | 130 |
| 2 | Above 3 Years Contract (in Grades 9 – 6) | 7 | 9 | 9 |
| 3 | 1year Contracts | 3 | 3 | 3 |
| | **TOTAL** | **125** | **144** | **142** |

## Staff achievement

The Society registered excellent growth in the year 2022. Key among the growth areas being the Loan Book Portfolio that registered a growth of close to **2.9 Billion**, deposits growth of **0.9B & Turnover revenue grew to 5.01 B**. This achievement confirms that staff worked tirelessly with dedication and commitment and recorded tremendous results despite the challenging work environment of 2022.

## Recruitment & Selections

Being an equal opportunity employer, the Society has over the years maintained a regional balance with near equal representation on gender balance. The major milestone to transformation for 2021/2022 is Mteja Kwanza. To drive this strategic agenda, during the year 2021/2022 the society recruited and successfully onboarded thirty **(30)** new staff in various cadres. The recruitment and selection process is in line with the authorized establishment to ensure optimum staffing levels and enhanced organizational performance.

## Salaries & Wages Administration

The Society fully implemented and concluded the 2019-2022 Collective Bargaining Agreement for the unionized staff. Further, the Management staff also received annual salary increment for the year 2021 & 2022 to cushion them against the prevailing high cost of living.

## Training and Development

The Society in pursuit of equipping staff with entrepreneurial mindset to entrench Business agility and sustainable growth identified 'Mteja Kwanza' as the Strategic theme for the year 2022. To build capacity and achieve this strategic intent all Staff were engaged in a one-week training that saw them come up with practical strategic initiatives that they committed to and actually undertook to improve the performance of the SACCO.

This notwithstanding our key focus remains, continuously empowering the staff and holistically building capacity of the human capital by ensuring that employees acquire the right skill sets to deliver on the strategic mandate of the SACCO and their individual career growth.

## Work Place Health & Safety

To safeguard the safety & health of the employees we have broadened the Staff medical cover to include Covid-19 testing and resultant treatment. We undertake fumigation of the Plaza and all our branches on a monthly basis. The Society in order to help the staff to manage work/life balance held several talks on financial literacy, Staff wellness, mental health, staff career & personal growth.

## Disciplinary Matters

The Society endeavors to have a disciplined workforce in order to drive its Vision and Corporate Mission. Therefore any form of indiscipline from staff members and any breach of the set out Policies, Procedures and Regulations are dealt with decisively but in a fair, transparent manner and in consistent with the provisions of the HR disciplinary procedures, the employment act and other relevant employment regulations.

## Staff Separations / Exits

In the year 2022, we had a number of exits from the Society as shown below:

| | PARTICULARS | YEAR |
|---|---|---|
| No. | Reasons for Exits | 2022 |
| 1. | Death | 1 |
| 2. | Resignation | 2 |
| 3. | Dismissals | 4 |
| 4. | Mandatory Age Retirement | 2 |

The Society remains the employer of choice in 2022 and beyond as the labour turnover was low as stipulated above. The Staff work/life balance and general welfare remains a top priority of the SACCO, as a happy staff is an engaged employee.

## Information Communication and Technology (ICT)

During the year under review, the SACCO ICT platforms played a major role in catalyzing growth of the institution. Almost all SACCO products and services are now available online. We thank our members for patronizing these products and services from the comfort of their work places or homes.

In the year 2022, online loan limits were improved to Kshs 1.5M for Back office loans and Kshs 1M for Front office loans. This has seen the growth of the online loan portfolio from 19% (Kshs 4.2B) over 161,275 online loans in 2021 to 24% (Kshs 5.67B) over 168,275 online loans in 2022. The SACCO will continue leveraging on the gains made on this front so as to include members from all the departments.

The Security and availability of our systems are crucial in the safety and accessibility of members funds. The cyber security systems in place have greatly improved the cyber security posture of Harambee DT SACCO. Courtesy of the investments made on this critical area, there was no incident of cyber fraud experienced during the year under review. The SACCO will continue to invest and train its' staff on cyber security awareness to bolster prevention of cyber criminals.

Delegates online monthly returns is yet another milestone in the year 2022. Delegates were empowered to submit monthly returns via the web-portal. This has greatly enhanced accountability for works done by delegates and has assisted management in tracking issues raised from the branches. The SACCO will improve on the platform for greater efficiency and service delivery.

Feedback from members and delegates on improvements on the mobile platforms included among others the transfer of funds from FOSA to other financial institutions and to other mobile wallets. I am happy to report that these services were rolled-out during the year under review. Other remaining services arising from your feedback shall be implemented in due course.

The SACCO will continue in the digitization of more products and services while taking into consideration the security and safety of the ICT platforms in use.

## Conclusion

We call upon stakeholders to support the SACCO initiatives and programs that will motivate employees, generate Return on Investment (ROI) and increase the bottom-line of the Society. Further, we most sincerely appreciate our key stakeholders, Delegates, Board and our members for the continued support and Harambee DT SACCO staff for the improved performance.

**MS. ROLLAH GATWIRI**
**CHAIRPERSON – FS&A COMMITTEE**

# CREDIT COMMITTEE REPORT

**"It is imperative therefore, that in the year 2022, a special emphasis will be on growing the number of salary accounts as this translates to instant transactional income that boosts the society's return on investment, otherwise known as dividends.**

The year 2022 was a successful one for the society and the credit committee worked diligently to;

(a) grow the loan book,

(b) ensure that members get their loans on time and conveniently, and

(c) ensure that the quality of the loan book continues to improve

The society's loan book grew from Kshs 24.3 billion in 2021 to Kshs 27.3 billion in 2022, representing a growth of 12%. For these commendable achievements, the credit committee wishes to sincerely appreciate all the members for their support and continued patronization of the Society's credit products and services during the year 2022, and the staff for their tremendous contributing towards this commendable growth.

FOSA products contributed kshs.539.6 million, made possible due to a growth in salary accounts of 4,781 over the last two years. The increase in accounts bolstered the FOSA income to hit the two billion mark. It is imperative therefore, that in the year 2022, a special emphasis will be on growing the number of salary accounts as this translates to instant transactional income that boosts the Society's return on investment, otherwise known as dividends.

This report of the Credit committee covers the loan disbursements comparisons for the years 2019 to 2022, the loan book balances from 2017 to 2022, the uptake of the new online credit products , FOSA credit performance and the loan default management, as detailed below;

## 1. Loan Disbursements

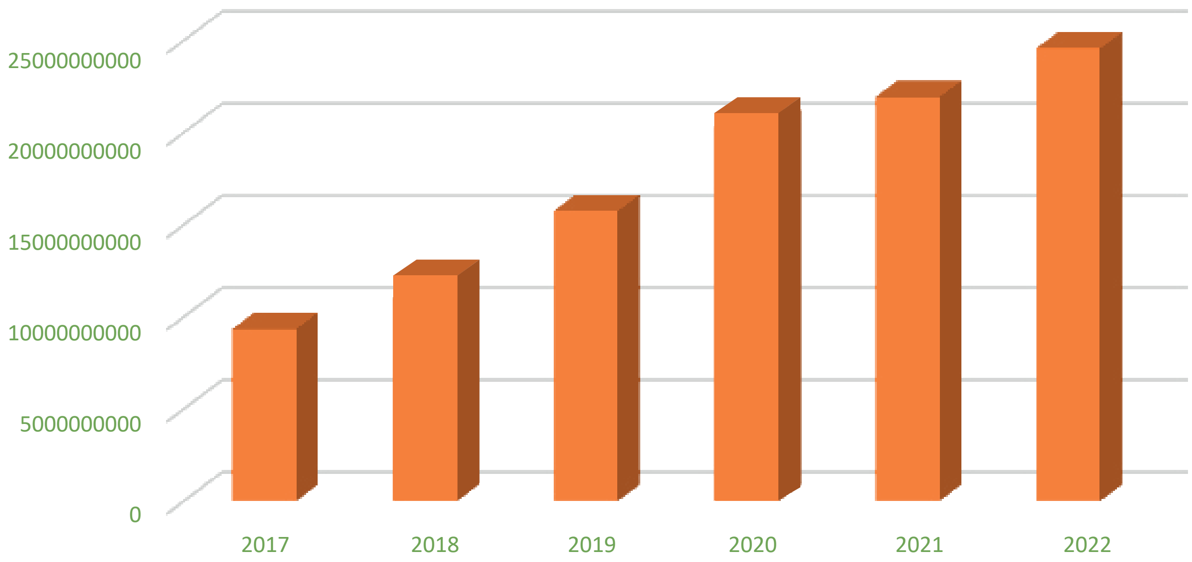
Table 1. Loan disbursements in 2022 increased by 12.04% from Kshs 21.9 billion to 24.5 billion as shown below;

| Year | Loans Disbursement (Kshs) | Growth (Kshs) | Growth (%) |
|---|---|---|---|
| 2017 | 9,341,550,981 | - | - |
| 2018 | 11,004,481,993 | 1,662,931,011 | 17.80 |
| 2019 | 15,744,625,515 | 4,740,143,522 | 43.07 |
| 2020 | 20,318,290,400 | 4,573,664,885 | 29.05 |
| 2021 | 21,935,591,869 | 1,617,301,469 | 7.96 |
| 2022 | 24,577,133,012 | 2,641,541,143 | 12.04 |

## 2. Loan Book

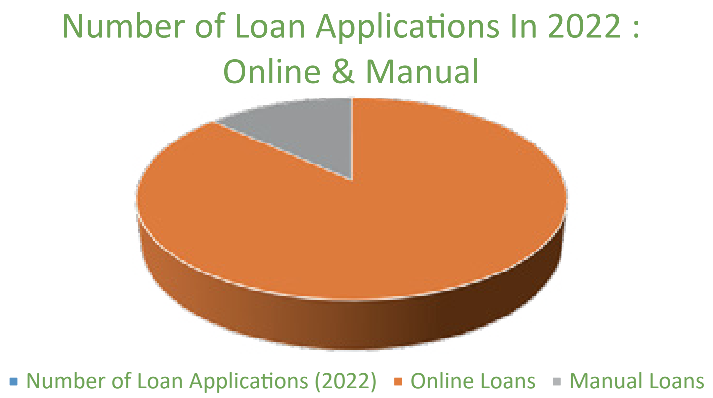
Table 2. Loan book balances from 2017 to 2021 : The Loan book has grown by Kshs 3.287 billion or 13.48% in 2022 as compared to 2021. An increase from Kshs 24.3 billion to 27.3 billion as per audited accounts.

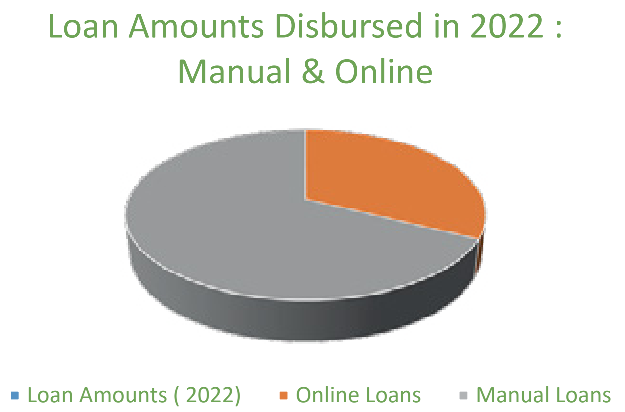
Table 3. Loan book growth from 2017 to 2022 : Illustrated graphically below ;



## 3. Online Loans Issued in Year 2021

Table 5. Online Loans disbursed : The SACCO disbursed a total of Kshs 7.965 billion though the online platform in the year 2022, compared to Kshs 3.920 Billion disbursed through the same platform in 2021. The online loans represent 86.72 % of the total number of applications and about 32 % of the total loans disbursed, as shown below;




| Online Loans | | Manual Loans | | Total Loans Granted | | Percentage of online loans | |
|---|---|---|---|---|---|---|---|
| Number | Amount (Kshs) | Number | Amount (Kshs) | Number | Amount (Kshs) | Number | |
| 188,565 | 7,965,048,278 | 28,867.00 | 16,612,084,734 | 217,432 | 24,577,133,012 | 86.72 | 32.41 |

## 4. Fosa Salary Adavnces

The value of advance disbursed was 1.718 billion for year 2022. FOSA branches also handles about 50% of the BOSA credit applications thereby enhancing member contact, and consequently impacting positively on the transactional income.

## 5. Loan Default Management

The SACCO has continued cleaning the loan book from the past historical issues over the years. As at end of year 2020 the number of members affected by these historical issues had significantly dropped. As at the end of year 2022 the SACCO reported an improvement in the portfolio at risk (PAR) of 1.37% from 1.56% as at 31st December 2021, which is well below the industry standard of 5%. This PAR is expected to continue improving in 2023 and beyond.

Finally, we once again commend the entire membership and staff for the immense contributions in 2022 that saw the SACCO maintain its growth trajectory in the loan book and maintain the quality of the loan book.

**MRS. MILLICENT SIMIYU**
**CHAIRPERSON, CREDIT COMMITTEE**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# EDUCATION AND GOVERNANCE COMMITTEE REPORT.

**"The Society remained steadfast in its product development and enhancement agenda. This was achieved through listening to the "voice of the member" in order to offer need based products and services.**

The roleof the Education and Governance Committee is to provide education to members, staff, and the board; ensuring SACCO membership growth and excellent customer service is observed; as well as ensuring the SACCO is governed in accordance with its code of corporate governance and all other relevant guidelines. The Committee is supported by the Business Development and Marketing Department and the Company Secretary.

The year 2022 was successful with the SACCO registering the following achievements:

## Sales & Marketing

The Sales and Marketing function remained vibrant throughout the year 2022 achieving outstanding results. The Society registered a total of **6,276 new members** and **13 Self Help Groups (Chamas)**. This was achieved through various strategic initiatives which included; Stakeholders Consultative meetings (Chairman's Breakfast), Media Campaigns, Virtual Membership Registration and Mass recruitment drives.

To support the Sales and Marketing function, the Society engaged 3 Marketing Officers, 14 Business Development Executives (BDEs) and 4 Telemarketing Officers who have been instrumental in increasing the membership numbers as well as our share of the wallet.

Other high-level activities that supported business growth included **Product Development & Enhancement** where the Society developed new products such as Business Account, Inuka 84 and Inuka 96 loan, and **Product campaigns** which enhanced uptake of SACCO Products. Some of the notable campaigns undertaken during the year under review include; Karibu Loan, Dividend Advance, Harambee Pesa (Agency Banking Platform), Harambee M-Cash (Mobile Banking Platform), M-Boosta, Inuka 84 and Inuka 96 loans.

These efforts have gone a long way in helping bolster the Society's financial position. Our assets grew from Kshs. 34.6B in 2021 to Kshs. 36.6B by close of 2022. The Society also recorded substantial growth in the loan book which stood at Kshs. 27.23B in 2022 from a low of Kshs. 24.38B in 2021

## Customer Service

The theme for year 2022 was "Mteja Kwanza" or simply put – Member obsession. This resonated very well with the Society's customer service agenda of increasing our brand loyalty through creating superior personalized customer experience. The drivers of the Society's customer service were Technology, customer-led products, Improved processes and Human Resources.

The Society adopted technologies that enabled members to interact with the SACCO and transact at any time anywhere. For instance, we were able to push loans through the online platform (Harambee M-Cash and the web portal). This meant that members were able to access credit facilities conveniently.

The Society remained steadfast in its product development and enhancement agenda. This was achieved through listening to the "voice of the member" in order to offer need based products and services. The efforts to review and improve processes and even deploy staff to support the Call Center, Social media, Premier office and FOSAs played a key role in improving our member experience as evidenced by the reduced Turn Around Times for our service delivery.

Further, we kept members updated on any new developments through bulk SMS and social media platforms and undertook member appreciation initiatives during the "**Customer Service Week**".

In the grand scheme of things, we endeavored to meet and more importantly exceed all members and stakeholders' expectations.

## Social Media

The year 2022 was a good year for social media. We closed the year with over 20,000 followers across our social media pages. This was especially attributed to by the Jijenge na Harambee DT SACCO campaign which increased our engagements. In the year 2022, the Society remained active on various social media platforms including; **Facebook, Instagram, Twitter, Youtube, LinkedIn, Tiktok, Whatsapp, Telegram** and **Google Review.**

Our main goal for social media was to: Improve member experience through addressing their issues, Increase member interactions, Increase awareness for SACCO Products and services, Increase the SACCO's brand visibility, Improve the brand image and market the SACCO to prospective members. We can confidently say that we met our goal for the year 2022.

## Community Social Responsibility

The Society's CSR program is now anchored in the Triple Bottomline Concept or the 3Ps i.e **Planet, People** and **Profit**. For the Society, this is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable Community.

In the year 2022, One of the largest programs we engaged in was the "**Adopt a bed at Kenyatta National Hospital**" which was a program aimed at providing double crank hospital beds to all patients at the hospital. The Society graciously donated 10 beds. The Society also built a waiting bay for Rapid Deployment Unit (RDU) Embakasi, an executive ablution block for National Police Service, Embakasi A Campus and further supported the Kedong Field Training Camp in roofing of the field training officers' mess. The future of Harambee DT SACCO's CSR program is bright as there are plans to register a Foundation that shall run with the CSR and other Social Performance Programs that shall be of interest to the Society.

## PR & Communications

With regards to PR and Communications, the first, second and third quarters of the year 2022 were quite favorable. We had the Media campaign "Jijenge na Harambee DT SACCO", running. From a PR standpoint, this campaign acted as a catalyst that helped engineer positive perception within the broader stakeholder spectrum. We also worked closely with the Print and Television Media ensuring that matters touching on Harambee DT SACCO received adequate coverage.

It is only during the last quarter of FY 2022 that several bloggers tried to publicize negative stories. This we were, nonetheless, able to contain. Our ingenuity, strategy and execution towards harnessing the potential of the stories worked quite impressively. In the end many of the bloggers teamed with us in achieving and pushing the agenda of Harambee.

Our strategy going forward is working on a symbiotic system that will see the SACCO bring into play all the key stakeholders in the media fraternity with a view to improving the image and the rating of the SACCO with regards to Perception Index.

## Corporate Governance

The Board did well in its oversight responsibility of assessing the overall direction and strategy of our Society's business. During the year under review, the Education and Governance Committee assisted the Board in its Corporate Governance oversight responsibilities by :

- Setting and reviewing policies
- Conducting Nomination & Election of Board Members
- Conducting its own Board training and development, planning for succession
- Organizing new board members orientation, onboarding, and training
- Organizing continuous education and training opportunities to help board members develop and grow
- Monitoring governance trends to guide the board on changes to regulatory compliance
- Making reviews and updating the Society's bylaws to keep policies and procedures up to date
- Inculcating ethical business practices, risk management and compliance policies in all its operations to reduce legal risks
- Reviewing all existing litigation and coming up with a plan for expeditious settlement or disposal to reduce legal costs
- Management of Board meetings and processes through the automated E-Board Platform and in compliance with the Board Charter, relevant statutes and our Society's By-laws
- Annual Delegates Meeting 2022 was conducted successfully
- Ensuring records of members' and directors' meetings are kept in compliance with the law
- The Committee has helped the Board to identify, engage with and understand our stakeholder perspectives on key issues and encouraged mutual partnerships and support.

## Branch/Delegates Affairs

During the year under review, we successfully conducted the following activities:

### (1) Regional Delegates Education Meetings.

The Society conducted 2022 Regional Delegates Education Meetings countrywide where the delegates were briefed on the Society's Performance and Strategic Plan 2020-2025. The delegates also gave feedback from the members on areas of improvement and new ideas for better performance of the Society.

### (2) Branch By-Elections

We coordinated by-elections in various branches where there were vacancies because of transfers, retirement, and /or death to fill the vacant positions for better service delivery to our members.

### (3) Delegates Induction Training

The Society conducted training for all the Society delegates on emerging trends in the Financial Sector, Leadership, Governance, Ethics, Society's Digital products and Personal Financial wellness.

### 4) Delegates Portal

The Society implemented the above portal which enables the delegates to submit their monthly returns to the Society online making analysis of feedback from the members more efficient.

### 5) Branch /Electoral Zones Review

The Society reviewed the electoral zones and delegates composition at the branches to make it more representative. Country wide branch elections were planned to be held in January 2023.

### 6) Communication to Delegates

This has been enhanced through SMS alerts and Emails.

### 7) Member Education

Going forward, the Society plans to conduct member education in order to have more engagement with the Members.

## Conclusion

The Education and Governance Committee is expected to continue playing its key role of creating long term value for the Society through various strategic initiatives that seek to improve corporate governance, corporate image while achieving business growth and profitability.

**COL STEPHEN M NGANGA**
**CHAIRMAN – EDUCATION AND GOVERNANCE COMMITTEE**

# INTERNAL AUDIT AND RISK COMMITTEE REPORT

**"The SACCO approach to risk management is designed to provide reasonable assurance that the risks facing the business are being assessed and mitigated.**

***Dear Shareholder,***

I am pleased to present to you the Audit and Risk Committee report for the year ended 31st December 2022. The report outlines how the Committee discharged its responsibilities during the year in relation to financial and other reporting, risk management and internal control, the Internal Audit function and our relationship and interaction with the external auditor.

The Audit and Risk committee assists the board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Society's process for monitoring compliance with laws and regulations and the code of conduct.

The Committee has a Charter that specifies its responsibilities and procedures. The responsibility of the audit committee is as follows.

## 1. Financial Reporting

The committee reviews the SACCOs Financial statements and recommends them for Board Approval. The committee reviews key accounting judgments, and estimates made by management while preparing financial statements. It also ensures that accounting records and financial reports are promptly prepared to accurately reflect operations and result.

## 2. Oversight of Internal Control

The committee ensures internal controls are established and effectively maintained. Receives reports on findings of the internal auditor, and reviews action to be taken by management to mitigate risk exposure.

## 3. Internal and External Audit

The SACCO Audit and Risk Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, plans, activities and resources.

Internal and External Audit Reports- Reviews management reports and reports from internal and external auditors concerning deviations and weaknesses in accounting and operational controls.

## 4. Risk Management and Compliance

The committee oversees the design and implementation of the risk management systems and processes appropriate to manage, monitor and report on the Society's material business risks. This involves preparation and regular updating of the Society's Strategic Risk Assessment framework, assigning accountabilities as necessary and monitoring the effectiveness of actions being taken to mitigate any significant risks. It also oversees compliance with relevant laws and regulations.

During the year ended 31 December 2022, the Committee discharged its mandate as set out in its charter as follows.

| | |
|---|---|
| **Financial Reporting** | - The Committee assisted the Board in reviewing the Annual Report and Financial Statements for the year 2022 and recommend to Board for Approval and publication |
| **Oversight of internal controls** | - Reviewed and approved the internal audit workplan for the year and ensured that material risks were included, and all areas of the SACCO business were covered. |
| **Internal Audit** | - Reviewed Internal Audit and related reports every quarter.<br>- Reviewed Special Audit reports during the year |
| **External Audit** | - Discussed terms of reference for External Auditors<br>- Discussed External Audit work plan for the year ended 31st Dec 2022<br>- Reviewed management letter for the year ended 31st Dec 2022 |
| **Risk Management** | - Reviewed and approved the SACCO Risk Management Framework<br>- Reviewed reports on principal risks and recommended mitigating measures.<br>- Reviewed follow-up reports on implementation of previous audit recommendations. |
| **Compliance Management** | - Reviewed reports on compliance with various statutory laws and regulations.<br>- Reviewed reports and adopted management recommendation on registration with data protection and proceeds of crime and money laundering Act. |
| **Information System Audit** | - Discussed terms of reference for System Audit Consultancy<br>- Discussed and adopted System Audit Report for the year 2022 |

## Risk Management & Compliance Governance

Risk management is integral to the SACCO strategy and to the achievement of the SACCO long term goals. Our success as a SACCO depends on our ability to identify and exploit the opportunities generated by our business and in our markets. In doing this, we take an embedded approach to risk management which puts risk and opportunities assessment at the core of all the discussions and decisions making in order to achieve appropriate balance risk and reward, recognizing that certain risks need to be taken to achieve sustainable growth and returns while at the same time protecting the SACCO and its stakeholders against avoidable risks.

The board is responsible for the oversight of the risk management process and has delegated the responsibility to the Audit and Risk Committee. A risk framework is in place which has adopted a discipled approach in identifying, evaluating, and developing appropriate strategies to mitigate and manage risk. This framework is reviewed on an ongoing basis and formally updated at least quarterly. This helps track and monitor how risks are changing together with emerging risk areas for prompt mitigation and exploitation actions by the management and the board.

**Compliance governance** - The board is also responsible for Compliance governance with the applicable laws & regulations, binding rules & contracts, codes, and standards. It sets the tone and direction for how compliance should be approached and addressed in the SACCO by preparing and approving policies that articulate and gives effect to its direction on compliance.

The SACCO approach to risk management is designed to provide reasonable assurance that the risks facing the business are being assessed and mitigated. The board has set clear organizational structure with well-defined accountabilities for the principal risks that Harambee Faces in the short, medium, and long term. The board has delegated responsibility for implementation and execution of effective risk and compliance management to the management, which responsibility is primarily discharged by the Head of Risk & Compliance under oversight of the Audit & Risk committee and the CEO.

The Structure has also ensured that every department has a risk champion to determine the nature and extent of significant risks in their operations and processes under the guidance of risk and compliance function.

**Data privacy and protection of personal information** - Data privacy and protection of personal information is critical for members trust in SACCO. The SACCO continues to endeavor to process personal data responsibly and ethically  with our regulatory obligations under the Kenya Data Protection ACT ,2019. A data privacy policy framework has been developed and is available on the SACCO website. A data mapping exercise was conducted in 2021 and SACCO embarked on placing mitigation measures to ensure our processes and operations align to the legal requirement.

**COL STEPHEN M NGANGA**
**CHAIRMAN**
**AUDIT AND RISK COMMITTEE**


...Let us help you find
a place to call
HOME!
Harambee Jenga loan
Harambee Home loan
Features:
Up to 105% refinancing
Up to Kes. 8 Million maximum loan amount
Up to 25 years repayment period
Affordable interest rate of up to 9%
Prepayments allowed at no extra cost
HARAMBEE
SACCO
Empowerment. Development. Security

# FINANCIAL STATEMENTS & NOTES
CS/1916

FOR THE YEAR ENDED
31 DECEMBER 2022

# REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2022 which disclose the state of affairs of the society.

## Incorporation

The Society is incorporated in Kenya under the Co-operative Societies Act, Cap 490 and is licensed under the SACCO Societies Act No.14 of 2008, and is domiciled in Kenya.

## Principal Activities

The principle activities of the society are receiving shares and deposits and giving out loans to its members.

**Results:**

| | 2022 | 2021 |
|---|---|---|
| | Kshs | Kshs |
| Surplus/(deficit) before tax | 532,769,549 | 396,727,376 |
| Income Tax Expense | (88,160,277) | (33,908,606) |
| Surplus for the year | 444,609,272 | 362,818,770 |
| Other Comprehensive Income net of tax | (52,781) | (12,574,836) |
| Total Comprehensive Income for the year | 444,556,491 | 350,243,935 |
| Interest on Members Deposits and Savings | 1,738,381,901 | 1,449,285,059 |

## Investment Shares

The issued and paid up share capital of the Society increased during the year from Ksh.2,056,298,992 to Ksh.2,170,287,989

## Dividends and Interest

The directors have recommended payment of 10.0% (2021: 8.0%) as dividend on investment shares and pay 8.0% (2021:7.0%) interest on SACCO deposits.

## Directors

The directors who held office during the year and to the date of this report are shown on page 5.

## Independent Auditor

Mwangi and Kamwara Associates - LLP were appointed during the year and have expressed their willingness to continue in accordance with the SACCO Societies Act No. 14 of 2008.

## Approval of Financial Statements

The Financial Statements were approved at a meeting of the Board of Directors held on 20th January 2023.

BY ORDER OF THE BOARD

Signature............................................ Date 30th January 2023

**COL STEPHEN NGANGA**
**SECRETARY**
**NAIROBI.**

# STATISTICAL INFORMATION

| | | 2022 | 2021 |
|---|---|---|---|
| **Membership** | | **No.** | **No.** |
| Active | | 77,345 | 72,869 |
| Dormant | | 2,296 | 1,405 |
| | | **79,641** | **74,274** |
| | | | |
| Number of branches | | **5** | **5** |
| | | | |
| Number of employees: | | | |
| Male | | 74 | 71 |
| Female | | 65 | 52 |
| **Total** | | **139** | **123** |
| | | | |
| **Financials** | | **Ksh.** | **Ksh.** |
| Total Assets | | 37,011,903,816 | 34,623,118,937 |
| Liquid Assets | | 1,148,670,706 | 786,499,196 |
| Current Assets | | 31,250,755,324 | 28,843,822,709 |
| Loans & Advances to Members (Net) | | 27,234,759,386 | 24,380,868,205 |
| Non Earning Assets | | 5,845,253,395 | 6,905,501,373 |
| External Borrowing | | 3,525,000,000 | 3,466,944,444 |
| Members' Deposits & Savings | | 23,700,144,171 | 22,540,473,020 |
| Savings Deposits and Short Term Liabilities | | 7,840,449,613 | 6,662,030,072 |
| Financial Investments | | 1,834,386,564 | 1,834,439,345 |
| Core Capital | | 4,127,654,622 | 3,828,398,243 |
| Share Capital | | 2,170,287,989 | 2,056,298,992 |
| Institutional Capital | | 1,957,366,634 | 1,772,099,250 |
| Long-term Liabilities | | 28,497,076 | 12,186,029.60 |
| Current Liabilities | | 6,261,041,583 | 5,346,277,499 |
| Total Revenue | | 5,012,662,094 | 4,229,803,635 |
| Total Interest Income | | 4,165,489,903 | 3,428,569,158 |
| Total Expenses | | 4,258,656,413 | 3,615,369,448 |
| Net (Deficit)/Surplus Before Tax | | 532,769,549 | 396,727,376 |

| | | 2022 | 2021 |
|---|---|---|---|
| **RATIOS** | **Statutory Requirements** | | |
| **Capital Adequacy Ratios** | | | |
| Core Capital / Total Assets | ≥10% | 11% | 11% |
| Core Capital / Total Deposits | ≥8% | 17% | 17% |
| Institutional Capital / Total Assets | ≥8% | 5.30% | 5.10% |
| Non-Earning Assets/Total Assets | <10% | 16% | 20% |
| Equities & Investments / Deposits | ≤ 5% | 8% | 8% |
| Net Loans / Total Assets | 70-80% | 74% | 70% |
| Deposits & Savings / Total Assets | 70-80% | 64% | 65% |
| Liquidity Ratios | | | |
| Liquid Assets/Savings Deposits & Short Term Liabilities | ≥15% | 15% | 12% |
| Liquid Assets/ Deposits and Long Term Liabilities | | 5% | 3% |
| **External Borrowing/ Total Assets** | <25% | 10% | 10% |
| **Operating Efficiency Ratios** | | | |
| Total Expenses / Average Assets | | 12% | 10% |
| Interest on Members' Deposits / Total Revenue | | 35% | 34% |
| Rate on Interest on Members' Deposits | | 8.00% | 7.00% |
| Dividends Rates on Members' Share Capital | | 10.00% | 8.00% |
| Total Delinquency Loans / Gross Loan Portfolio | ≤ 5% | 1.40% | 1.40% |

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

ii. Selecting and applying appropriate accounting policies; and

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2022 and of the society's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the SACCO Societies Act No. 14 of 2008.

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

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

Approved by the Board of directors on 28/1/2023 and signed on its behalf by:

........................................................................ **CHAIRMAN**

........................................................................ **TREASURER**

........................................................................ **HON SECRETARY**

MWANGI & KAMWARA
ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

# REPORT OF THE INDEPENDENT AUDITOR

# TO THE MEMBERS OF HARAMBEE SAVINGS & CREDIT CO-OPERATIVE SOCIETY LIMITED

## Opinion

We have audited the financial statements of Harambee DT Savings and Credit Co-operative Society Limited (the society) set out on pages 49 to 81, which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the society's financial position as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the SACCO Societies Act No. 14 of 2008.

## Basis for opinion

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

## Key audit matters

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

PARTNERS: ROBERT KAMWARA, DANIEL MWANGI
ASSOCIATES: RUTH MUGO, ANDREW MULOGOLI, TIMOTHY MWACHANYA
WWW.MKAUDITORS.COM I info@mkauditors.com 020-2633423 I 0722 788 834 I 0722 626 755 RAMCO COURT, SUITE A-23 MOMBASA I ROAD P.O.BOX 34458 - 00100 NAIROBI - KENYA

MWANGI & KAMWARA
ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

## Key Audit Matters (Continued)

| Key audit matter | | How our audit addressed the key audit matters |
|---|---|---|
| **Forward looking information & IFRS 9 Implimentation**<br>The adoption and implementation of IFRS 9 is a key audit matter in the preparation of the financial statements of the SACCO Society. This affects the classification of financial assets and liabilities, measurement of the financial assets and liabilities, de-recognition of the same and impairment of the financial assets. IFRS 9 requires the SACCO to consider forward looking information forecasting on future economic conditions when measuring expected credit losses. This involves the engagement of experts in macro-economic analysis. | | We performed various tests and not limited to various substantive audit procedures which entailed review of the loan book,recomputation of the loan and interests rates,classification tests,performed data validation used to compute historical default rates impacting the computation of the probability of default. |
| **Recoverability of Trade Receivables** | | |
| Included in the trade receivables are amounts outstanding as unrealizable. Amounts remains unreconciled and arose from system migration when the SACCO was transiting to new automated system. The significance of the balances in the financial statements is material and the SACCO has since started doing the provision on this as per the members resolution in the Annual Delegates Meeting. | | We audited the unrealizable asset account and the related reconciliations which have been outstanding. The suspense write offs have a potential of attracting future liabilities. However provisions have been made for the year ended 31st December 2022. |
| **Expected Credit Loss (ECL) methodology** | | |
| Inherent,judgemental modelling is used to estimate ECLs which involves determining rates of default, loss given default and exposure at default.Effective interest rate and ultimately the expected credit loss.Measurements of ECL are based on 12- months ECLs or lifetime ECLs depending on the facility staging. | | With respect to exposure at default, we reviewed the appropriateness and compliance to the standard regarding the methods used to determine the expected cash flows,credit conversion factors and expected prepayments. We assessed the segmentation to ensure that the SACCO'S exposures were grouped into segments with similar credit risk.We assessed whether the disclosures appropriately disclosed the key judgements and assumptions used in determining the the expected credit lossess.<br><br>We also assessed whether there were sufficient disclosures on key judgements and assumptions used in determining the expected credit losses based on the evidence obtained, we conclude that a fair estimates were obtained as per the IFRS. |

MWANGI & KAMWARA
ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

## Other information

The directors are responsible for the other information. The other information comprises of the Chairman's report, Treasurer's report, Supervisory committee report, and the Corporate governance statement which are attached in this report.

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

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

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

When we read the other reports expected to be made to us after date of report of the independent auditor, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of directors for the financial statements

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

MWANGI & KAMWARA ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

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

## Report on other legal and regulatory Requirements

The Kenyan SACCO societies Act of 2008 requires that we report the following matters to the SACCO Societies Regulatory Authority (SASRA). We report that:

i. We have obtained all the information and explanations which, to the best of our knowledge and belief, were considered necessary for the purpose of our audit.

ii. We are not aware of any irregularities or illegal acts that have been committed by the directors, employees or the SACCO Society itself and;

iii. We have no grounds to believe that the SACCO Society is insolvent or that there is a significant risk that it may become insolvent.

Mwangi & Kamwara Associates
P.O Box 54458 - 00100
Nairobi
Kenya
CPA - K

**Mwangi and Kamwara Associates**
**Certified Public Accountants**
**Nairobi**

30/01/**2023**

**CPA Robert Gathogo Kamwara, Practicing Certificate No. 1873**
**Signing Partner responsible for the independent audit**

# STATEMENT OF COMPREHENSIVE INCOME

| INCOME | Notes | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| **INTEREST INCOME:** | | | |
| Interest -Loans and advances to members | 2(a) | 4,150,982,677 | 3,410,942,234 |
| Other interest -Investments | 2(b) | 14,507,226 | 17,626,924 |
| **Total Interest income** | | **4,165,489,903** | **3,428,569,158** |
| Interest expenses | 4 | (1,738,381,901) | (1,449,285,059) |
| **Net Interest Income** | | **2,427,108,002** | **1,979,284,099** |
| | | | |
| **NON INTEREST INCOME:** | | | |
| Dividend income | 3 | 136,169,657 | 147,382,598 |
| Fees and commissions | 5 | 421,871,775 | 377,765,832 |
| Other operating income | 6 | 67,894,627 | 58,379,236 |
| **Total Non Interest Income** | | **625,936,059** | **583,527,666** |
| | | | |
| **TOTAL OPERATING INCOME** | | **3,053,044,061** | **2,562,811,764** |
| | | | |
| **OPERATING EXPENSES:** | | | |
| Financial expenses | 7 | (1,055,345,803) | (1,105,891,495) |
| Personnel expenses | 8 | (428,800,410) | (364,669,498) |
| Administration expenses | 9 | (458,330,892) | (199,635,848) |
| Governance expenses | 10 | (282,513,504) | (221,171,438) |
| Marketing expenses | 11 | (165,453,096) | (115,955,282) |
| Other operating expenses | 12 | (68,512,162) | (85,212,492) |
| Depreciation & amortization expense | 13 | (61,318,646) | (73,548,336) |
| **Total Operating Expenses** | | **(2,520,274,513)** | **(2,166,084,388)** |
| | | | |
| **Operating Surplus Before Taxation** | | **532,769,549** | **396,727,376** |
| | | | |
| Income tax expense | | (88,160,277) | (33,908,606) |
| | | | |
| **Net Surplus/ for the Year after Tax** | | **444,609,272** | **362,818,770** |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Loss on revaluation of financial assets | | (52,781) | (12,574,836) |
| | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **444,556,491** | **350,243,935** |
| | | | |
| **Dividends** | | | |
| Proposed dividend | | **217,028,799** | **164,503,919** |

The notes on page 53 - 81 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **ASSETS** | **Notes** | **Kshs** | | **Kshs** |
| Cash and cash equivalents | 22 | 1,148,670,706 | | 786,499,196 |
| Receivables and prepayments | 19 | 2,867,027,851 | | 3,676,455,308 |
| Loans & advances to members | 14 | 27,234,759,386 | | 24,380,868,205 |
| Financial investments | 21 | 1,834,386,564 | | 1,834,439,345 |
| Inventory | 20 | 297,381 | | - |
| Investment property | 15 | 3,020,000,000 | | 3,020,000,000 |
| Land projects | 16 | 629,317,479 | | 629,317,479 |
| Rights of use assets (IFRS 16) | 32 | 24,272,034 | | 9,004,997 |
| Fixed assets | 17 | 207,947,846 | | 224,977,881 |
| Intangible assets | 18 | 45,224,569 | | 61,556,525 |
| **Total Assets** | | **37,011,903,816** | | **34,623,118,937** |
| | | | | |
| **LIABILITIES** | | | | |
| Interest, dividends to members & honoraria | 28 | 2,039,162,411 | - | 1,643,170,028 |
| Members' deposits and savings | 23 | 23,700,144,171 | | 22,540,473,020 |
| External Borrowing | 25 | 3,525,000,000 | | 3,466,944,444 |
| Lease liabilities (IFRS 16) | 33 | 28,497,076 | | 12,186,030 |
| Payables and accruals | 26 | 672,290,948 | - | 236,163,027 |
| Land projects deposits | 24 | 329,825,468 | | 330,990,468 |
| Taxation | 27 | 24,588,223 | | - |
| **Total Liabilities** | | **30,319,508,297** | | **28,229,927,017** |
| | | | | |
| **EQUITY** | | | | |
| Share capital | 29 | 2,170,287,989 | - | 2,056,298,992 |
| Statutory reserves | 30 | 1,113,210,710 | | 1,113,210,710 |
| Revaluation Reserves | 30 | 2,564,740,896 | | 2,564,793,677 |
| Capital Reserves | 30 | 158,366,719 | | 158,366,719 |
| Retained Earnings | 30 | 685,789,205 | | 500,521,821 |
| **Total Equity** | | **6,692,395,518** | | **6,393,191,920** |
| | | | | |
| **Total Equity and Liabilities** | | **37,011,903,816** | | **34,623,118,937** |

APPROVED
for publication and presentation
to AGM or ADM subject to observations issued
03 FEB 2023
SIGN:......
THE SACCO SOCIETIES REGULATORY AUTHORITY

The notes on page 53 - 81 form an integral part of these financial statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 20th January 2023 and were signed by:

.................................... Chairman

.................................... Treasurer

.................................... Secretary

# STATEMENT OF CHANGES IN EQUITY

| | Share Capital Ksh | Statutory Reserves Ksh | Revaluation Reserves Ksh | Capital Reserves Ksh | Retained Earnings Ksh | Total Ksh |
|---|---|---|---|---|---|---|
| **2022** | | | | | | |
| **At start of the year** | **2,056,298,992** | **1,113,210,710** | **2,564,793,677** | **158,366,719** | **500,521,821** | **6,393,191,920** |
| Prior year adjust. -Tax arrears | | | | | (19,813,090) | (19,813,090) |
| | **2,056,298,992** | **1,113,210,710** | **2,564,793,677** | **158,366,719** | **480,708,731** | **6,373,378,830** |
| Surplus for the year | | | | | **444,556,491** | **444,556,491** |
| Issue of share capital | 113,988,997 | | | | | 113,988,997 |
| Loss on revaluation of financial assets | | | (52,781) | | 52,781 | - |
| Staff Bonus & Honoraria | | | | | (22,500,000) | (22,500,000) |
| Proposed dividends | | | | | (217,028,799) | (217,028,799) |
| **At end of the period- 31 Dec 2022** | **2,170,287,989** | **1,113,210,710** | **2,564,740,896** | **158,366,719** | **685,789,204** | **6,692,395,518** |
| | | | | | | |
| **2021** | | | | | | |
| At start of the year | **1,988,324,747** | **1,113,210,710** | **2,577,368,513** | **158,366,719** | **251,982,296** | **6,089,252,985** |
| Prior year adjustment -inventory | | | | | 69,605,723 | 69,605,723 |
| | **1,988,324,747** | **1,113,210,710** | **2,577,368,513** | **158,366,719** | **321,588,019** | **6,158,858,709** |
| Surplus for the year | | | | | 350,243,935 | 350,243,935 |
| Issue of share capital | 67,974,245 | | | | | 67,974,245 |
| Loss on revaluation of financial assets | | | (12,574,836) | | 12,574,836 | - |
| Staff Bonus & Honoraria | | | | | (19,381,049) | (19,381,049) |
| Proposed dividends | | | | | (164,503,919) | (164,503,919) |
| **At end of the period -31 Dec 2021** | **2,056,298,992** | **1,113,210,710** | **2,564,793,677** | **158,366,719** | **500,521,821** | **6,393,191,920** |

The prior year adjustment of Kshs.19,813,090 relates to KRA additional tax assessment for years 2016 & 2017. The additional assessment was paid in year 2022.

The notes on page 53-81 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

| | 2022<br>Ksh | 2021<br>Ksh |
|---|---|---|
| **Cash flow from operating activities:** | | |
| Interest receipts from loans | 4,150,982,677 | 3,410,942,234 |
| Interest payments | (1,828,985,159) | (1,585,893,681) |
| Interest paid on lease liabilities | (4,507,022) | (4,825,310) |
| Other operating and non interest receipts | 504,273,628 | 453,771,992 |
| Payments to suppliers & employees | (1,446,207,632) | (1,062,322,584) |
| **Net cash (used)/generated before working capital changes** | **1,375,556,493** | **1,211,672,652** |
| (Increase)/Decrease in operating assets: | | |
| Net Loans & advances to members | (2,853,891,181) | (2,508,645,078) |
| Trade Receivables & prepayments | 206,833,176 | (423,115,388) |
| Decrease/(Increase) in inventory | (297,381) | 40,506,957 |
| Members' deposits & savings | 1,159,671,151 | 1,014,418,640 |
| Payables & accruals | 436,127,921 | (6,481,046) |
| **Net cash flow from operating activities before income tax** | **324,000,179** | **(671,643,264)** |
| Income tax paid | (63,544,419) | (42,051,865) |
| **Net cash spent from operating activities** | **260,455,760** | **(713,695,128)** |
| **Cash flow from investing activities:** | | |
| Purchase of property, plant & equipment | (19,563,490) | (55,449,293) |
| Cash paid for in respect of right -of -use assets | | |
| Cash paid for in respect of prepaid operating lease rentals | - | - |
| Purchase of investments | - | - |
| Purchase of software | (3,050,000) | (4,859,826) |
| Purchase of land projects | - | - |
| Dividends received | 136,169,657 | 147,382,598 |
| **Net cash (spent)/used from investing activities** | **113,556,167** | **87,073,479** |
| **Cash flow from financing activities:** | | |
| Share Capital contributions | 113,988,997 | 67,974,245 |
| Dividend | (183,884,968) | (119,303,895) |
| Loan proceeds received | 3,700,000,000 | 3,234,280,483 |
| Loan repayments | (3,641,944,444) | (2,790,392,527) |
| **Net cash from financing activities** | **(11,840,416)** | **392,558,306** |
| Net (decrease)/increase in cash and cash equivalents | 362,171,511 | (234,063,343) |
| Cash and cash equivalents at the beginning of the year | 786,499,196 | 1,020,562,539 |
| **Cash and cash equivalents at the end of the year** | **1,148,670,706** | **786,499,196** |

The notes on page 53-81 form an integral part of these financial statements.

# NOTES

## Basis Preparation

### (a) Statement of Compliance

The financial statements have been prepared in accordance with international Financial Reporting Standards and the Co-operative Societies Act.

For Co-operative Societies Act reporting purposes, the balance sheet is represented by statement of financial position and the income and expenditure account by the statement of profit or loss and other comprehensive income, in these financial statements. The Financial statements are prepared under the historical basis except for fair valuation of certain assets

### (b) Going Concern

Based on the financial performance and position of the society and its risk management policies, the directors are the opinion that the society is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

### (c ) Use of Estimates and Judgements

The preparation of financial statements in conformity with International Financial 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 and the reported amounts of revenues and expenses during reported period. Although these statements are based on the directors' best knowledge of current events and actions actual results ultimately may differ from the estimates.

The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in financial statements are described in Note 1.

### (d) Functional and Presentation Currency

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

## Siginificant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### (a) Revenue Recognition

Revenue is derived substantially from SACCO business and related activities and comprise net interest income and non-interest income. Prior year revenue was recognized on an accrual basis in the period in which it is earned.

#### i . Interest

In current year interest income and expense for all interest bearing instruments and recognized in profit or loss as it accrues considering the effective interest rate of the asset or an applicable floating rate.

The effective interest rate is the rate that exactly discounts the estimated future cash flow through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income and expense are recognized in profit or loss using effective interest method .The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the SACCO estimates future cash flows considering all contractual terms of the financial instrument but not expected credit losses. For credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset of financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit -impaired, then the calculation of the interest income reverts to the gross basis

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the assets improves.

### ii. Fees and Commission Income

Fees and commission income is recognized on an accrual basis when the service is provided.

This income comprises of appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

Fees and commission on a financial asset of financial liability are included in the effective interest rate. Loan fees that are recognized using the effective interest method are included with loan balances in the consolidated statement of financial position.

Other fee and commission income -including account servicing fees, loan discharge and administration fees are recognized as the related services are performed.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### iii. Dividend Income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex- dividend date for quoted equity securities. Dividends are presented in net income from other financial instruments at a Fair Value Through Profit and Loss (FVTPL) or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at Fair Value Through Other Comprehensive Income(FVOCI) that clearly represent a recovery of part of the cost of the investment in Other Comprehensive Income(OCI).

## (b) Members' Deposits and Savings

Members' deposits and savings are stated at their normal value. Interest payable on the members 'savings are accounted for an accrual basis and are added to 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. Cost includes expenditures that are directly attributable to the acquisition of the asset.

### ii. Depreciation

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

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

| | |
|---|---|
| Computers hardware | 30.0% |
| Office Equipment | 12.5% |
| Furniture & Fittings | 12.5% |
| Motor vehicles | 25.0% |

Leasehold land is depreciated over the remaining useful life of the lease.

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 amount and are recognized under profit or loss in the year in which they arise.

### (d) Intangible Assets (Software)

Computer software 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 costs are amortized on a reducing balance basis over the expected useful lives, using an annual rate 30% and are recognized in profit or loss. Costs associated with maintaining 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 when incurred.

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

### (e) Inventory

Supplies and materials are initially recognized as inventory and are expensed on delivery and acceptance.

### (f) Statutory Reserves

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

### (g) Financial instruments

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

### (h) Financial Assets

#### (i) Recognition and Initial Measurement

The SACCO initially recognizes loans and advances and other financial instruments on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the SACCO becomes a party to the contractual provisions of the instrument. A financial asset is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

#### (ii) Classification of Financial Assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

a) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the SACCO may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the SACCO may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### (iii) Business Model Assessment

The SACCO assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

a) the stated policies and objectives for the portfolio and the operation of those policies in practice. Whether management's strategy focuses on earning contractual interest revenue, maintaining a specific interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
b) how the performance of the portfolio is evaluated and reported to the SACCO's management;
c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
d) how managers of the business are compensated – e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

e) the frequency, volume, and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the SACCO's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The SACCO has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on the established criteria the financial asset is expected to be securitized as part of a portfolio that:

qualifies for derecognition as detailed below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or

does not qualify for derecognition, the SACCO has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is met.

### (iv) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during the period and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the SACCO considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the SACCO considers:

Contingent events that would change the amount and timing of cash flows:

- leverage features;
- prepayment and extension terms;
- terms that limit the SACCO's claim to cash flows from specified assets (e.g., nonrecourse asset arrangements); and
- features that modify consideration of the time value of money – e.g., periodic reset of interest rates.

### (v) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the SACCO changes its business model for managing financial assets.

### (vi) Derecognition of Financial Assets

The SACCO derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the SACCO neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From January 1,2020 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the SACCO is recognized as a separate asset or liability.

## (i) Financial Liabilities

### (i) Recognition and Initial Measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

### (ii) Classification of Financial Liabilities

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

### (iii) Derecognition of Financial Liabilities

The SACCO derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

### Significant accounting judgements, estimates and assumptions

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

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

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

A number of significant judgements are also required in applying the accounting requirements for

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

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

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

- **Stage 1** - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- **Stage 2** - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

### (j) Translation of Foreign Currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the transaction date. Resulting exchange differences are recognized in profit or loss in the year in which they arise

### (k) Accounting for leases

The society assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

## The society as lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the society recognizes a right-of-use asset and a lease liability. The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the society is reasonably certain to exercise that option.

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

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

Subsequently the lease liability is measured at amortized cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not estimated, useful life would not exceed the lease term expected to pass to the society at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognized in other comprehensive income. All other decreases are charged to profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation reserve to the retained earnings.

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

## The society as lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognized as income in profit or loss on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the society's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the society's net investment outstanding in respect of the leases.

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position.

Management has made various judgements and estimates under IFRS 16 as detailed below:

Incremental borrowing rate: To determine the incremental borrowing rate, the society:

- where possible, uses recent third-party financing received AS a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g.. term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are terminated).

For leases of property, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the society is typically reasonably certain to extend (or not to terminate).
- If any leasehold improvements are expected to have a significant remaining value, the society is typically reasonably certain to extend (or not terminate).

## Accounting for leases under IFRS 16

The lease term is reassessed if an option is actually exercised (or not exercised) or the society becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The carrying amounts of right-of-use assets and lease liabilities are disclosed in notes 32 and 33, respectively.

### (l) Income Tax Expense

income earned from dealing with members is tax exempt. 50% of interest other than from members is taxed at the corporate rate of 30%. All other incomes are taxed at 30%, except dividend income whose withholding tax is final.

### (m) Employee Benefits

#### (i) Defined contribution plan

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 Kshs 200 per employee per month.

#### (ii) 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.

### (n) Related Parties

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

### (o) Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are stated at cost, including transaction costs less accumulated depreciation and impairment if any. Depreciation is calculated over the remaining lease period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal.

### (p) Provisions for Liabilities and Other Charges

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation.

### (q) Comparatives

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

### (r) New Standards, Amendments, and Interpretations

#### (i) New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Society has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

| NEW AND AMENDMENTS TO STANDARDS | EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON O |
|---|---|
| IFRS 17 – insurance contracts | Annual periods beginning on or after 1 January 2023 |
| Amendments to IAS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture | Yet to be set, however earlier application permitted |
| Amendments to IAS 1- Classification of Liabilities as Current or Non-current | Annual periods beginning on or after 1 January 2023 |
| Amendments to IFRS 3 - Reference to the Conceptual Framework | Annual periods beginning on or after 1 January 2022 |
| Amendments to IFRS 16 Property, Plant and Equipment—Proceeds before Intended Use | Annual periods beginning on or after 1 January 2022 |
| Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract | Annual periods beginning on or after 1 January 2022 |
| Annual Improvements to IFRS IFRS<br>Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial instrument IFRS 16 Leases, and IAS 41 Agriculture Instruments | Annual periods beginning on or after 1 January 2022 |
| Amendments to IAS 1 and IFRS<br>Practice Statement 2 - Disclosure of Accounting Policies | Annual periods beginning on or after 1 January 2023 |
| Amendments to IAS 8 - Definition of Accounting Estimates | Annual periods beginning on or after 1 January 2023 |
| Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction | Annual periods beginning on or after 1 January 2023 |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Society in future periods.

### Amendments to IAS 1 – Classification of Liabilities as Current or Nonycurrent The amendments to IAS 1

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

### Amendments to IFRS 3 business combinations – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

### Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

### Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

## Annual Improvements to IFRS Standards 2018–2020

The Annual Improvements include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1: D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

### IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

### IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

### IAS 41 Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e., for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

**Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements—Disclosure of Accounting Policies The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies.***

The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

### Amendments to IAS 8—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

A change in accounting estimate that results from new information or new developments is

- not the correction of an error

The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the

- correction of prior period errors

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

**Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

## Financial Risk Management

The SACCO's operations are exposed to various risks including liquidity risk, operational risk, credit risk, compliance risk, ICT risk and market risk (including currency risk, fair value, interest rate risk and price risk). The SACCO's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the SACCO's financial performance.

Effective risk management is fundamental in achieving the SACCO's strategic objectives. In carrying out its activities, the SACCO has adopted a systematic approach in balancing risks and rewards with the aim of protecting the interests of all stakeholders whilst delivering long-term sustainable member value. The SACCO acknowledges that prudent risk management and compliance are the responsibility of all individuals across the SACCO and to this effect, it has institutionalized mechanisms to transmit and promote risk awareness throughout the organization.

The Board of Directors has provided in the risk management policy written principles for overall risk management. Enterprise Risk management is carried out by the Audit and Risk Committee in accordance with framework approved by the Board of Directors whilst reporting on an ongoing basis to the Board of Directors. The Audit and Risk Committee identifies, evaluates, and manages risks in close co-operation with Risk and Compliance Department which continuously reviews the SACCO's risk landscape as it evolves. Additionally, the SACCO management in implementing its day-to-day mandate, is supported by an independent team of risk and compliance professionals well equipped with the required skill sets to address risk issues in an ever changing, fast paced business environment. Timely decision- making is critical, and a culture of consistent risk dialogue ensures that all pertinent risks facing the institution are identified, well understood by their respective first line owners and managed within acceptable thresholds

The sub-committee reports monthly to the Board of Directors on all aspects of risks including nature of risks, measures instituted to mitigate risk exposures etc. The SACCO has exposure to the following financial risks from its use of financial instruments.

. Credit risk

. Liquidity risk

. Market risk

**(a) Credit Risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the SACCO and a rises principally from the SACCO's loans and advances to its members.

The amount presented in the statement of financial position are net of impairment for doubtful debts, estimated by the board based or prior experience, assessment of the current economic environment and the prudential guidelines from SASRA.

### Management of Credit Risk

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

Trade receivables consist mainly of insurance claims of loans held by deceased members. Ongoing credit evaluation is performed on the financial condition of account receivable and , where appropriate , credit guarantee insurance cover may be purchased. The SACCO does not hold any receivables from individuals or entities that have been declared bankrupt/insolvent.

## Credit risk grades

The SACCO allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

| | | |
|---|---|---|
| Information obtained during periodic review of customer files – e.g., audited financial statements, management accounts, budgets, and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service | Internally collected data on customer behaviour | Payment record – this includes overdue status as well as a range of variables about payment ratios |
| | Affordability metrics | Utilization of the granted limit requests for and granting of forbearance |
| Data from credit reference agencies, press articles, changes in external credit ratings. | External data from credit reference agencies including industry- standard credit scores (e.g., beacon scores) | Existing and forecast changes in business, financial and economic conditions. |
| Actual and expected significant changes in the political, regulatory, and technological environment of the borrower or in its business activities. | | |

## Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The SACCO collects performance and default information about its credit risk exposures analysed by region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The SACCO employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include inflation, benchmark interest rates, inter-bank rates and the differential between the SACCO's lending rates and the lending rates for commercial banks in Kenya.

Based on advice from the SACCO's Credit Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the SACCO formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The SACCO then uses these forecasts to adjust its estimates of PDs for the different portfolios.

## Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include

quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of exposure is deemed to have increased significantly since initial recognition if, based on the SACCO's quantitative modelling, there is interest or principal outstanding. The definition of days outstanding is based on SASRA definition.

Using its expert credit judgment and, where possible, relevant historical experience, the SACCO may determine that an exposure has undergone a significant increase in credit risk based on qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the SACCO considers that a significant increase in credit risk occurs no later than when an asset is more than 0 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The SACCO monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria can identify significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 1 day past due and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The SACCO's Credit Risk Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the SACCO's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the SACCO's ability to collect interest and principal and the SACCO's previous experience of similar forbearance action. As part of this process, the SACCO evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

The SACCO considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the SACCO in full, without recourse by the SACCO to actions such as realizing security (if any is held);
- the borrower is past due more than 30 days on any material credit obligation to the SACCO. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;
- the SACCO agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing:
- the SACCO has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the SACCO considers indicators that are:

- qualitative – e.g., breaches of covenant; quantitative – e.g., overdue status and non-payment on another obligation of the same issuer
- to the SACCO; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the SACCO for regulatory capital purposes.

## Incorporation of forward-looking information

The SACCO incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial measurement of ECL. Based on advice from the SACCO's Credit Risk Committee and economic recognition and its experts and consideration of a variety of external actual and forecast information, the formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Central Bank of Kenya.

The base case represents a most-likely outcome and is aligned with information used by the SACCO for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the SACCO carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The SACCO has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as of 31 December 2022 included the following ranges of Kenyan key indicators for the years ending 31 December 2022 and 2021.

- Inflation rates
- Interbank rates
- 91-day T-bill rates

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 48 months between January 2019 and December 2022.

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counter parties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be usedto derive the PD for large commercial counterparties. If a counterparty or exposure migratesbetween ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual

LGD is the magnitude of the likely loss if there is a default. The SACCO estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

The LGD models consider the structure, collateral, seniority of the claim, counterparty industryand recovery costs of any collateral that is integral to the financial asset. For loans securedby retail property, LTV ratios are a key parameter in determining LGD. LGD estimates arerecalibrated for different economic scenarios and, for real estate lending, to reflect possiblechanges in property prices. They are calculated on a discounted cash flow basis using theeffective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The SACCO derives the EADfrom the current exposure to the counterparty and potential changes to the current amountallowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets forwhich credit risk has not significantly increased, the SACCO measures ECL considering the risk ofdefault over the maximum contractual period (including any borrower's extension options) overwhich it is exposed to credit risk, even if, for risk management purposes, the SACCO considers alonger period. The maximum contractual period extends to the date at which the SACCO has theright to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition (vintage);
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a group remain appropriately homogeneous.

### (b) Liquidity Risk Management of liquidity risk

The board has built an appropriate liquidity risk management framework for the management of the SACCO's Short, Medium and long- term funding and liquidity management requirements.

The SACCO Managers liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities. The SACCO maintains a minimum of 15% of its saving deposits and short term liabilities in liquid assets.

### Source of funding

The SACCO has access to financing facilities in addition to internal sources. The SACCO expects to meet its other obligations from operating cash flows and proceeds of maturing fixed deposits.

### Exposure to liquidity risk

The key measures used by the regulator for managing liquidity risk is that minimum of 15% of savings, deposits and short term liabilities should be held in liquid assets. For this purpose net liquid assets include notes and coins, balances at institutions licensed under the banking act after deducting there from balances owed to those institutions, treasury bills and bonds and deposits held at other SACCOs of a maturity of not exceeding 90 days.

## (c) Market risk

### Interest rate risk management

The SACCO is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. Interest rate risk is managed through maintaining an appropriate mix between fixed and floating rate borrowings. The SACCO's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate risk stress test

The impact that an immediate hypothetical increase or decrease in interest rate of 4% applied at the beginning of the year would have on the profit for the year and retained earnings assuming a growing financial position and current interest rate risk profile.

### Price risks

The SACCO is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The SACCO does not actively trade these investments hence no significant risk. The SACCO's sensitivity to equal prices has not changed significantly from the prior year.

## (d) Fair Value of financial Assets and Financial Liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which fair value is observable.

- **Level 1**: fair value measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly ( i.e. derived from prices).
- **Level 3**: fair value measurements are those derived from valuation techniques that include inputs for the asset or viability that are not based on observable market data ( unobservable inputs).

## (s) Provision for liabilities and other charges.

Provisions are recognized when the Society has a present obligation as a result of a past event, it is probable that the SACCO will be required to settle the obligation, and a reliable estimate of the amount of the obligation made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

## (t) Cash and cash equivalents

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

| | | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| **2 (a) Interest income from Loans & Advances to members** | | | |
| BOSA loans & advances to members | | 3,982,710,560 | 3,249,026,524 |
| FOSA loans & advances to members | | 168,272,117 | 161,915,710 |
| | | **4,150,982,677** | **3,410,942,234** |
| **(b) Other interest income** | | | |
| | Interest on money market investments | 11,507,816 | 11,069,959 |
| | Bank Fixed and Call deposits | 2,999,410 | 6,556,965 |
| | | **14,507,226** | **17,626,924** |
| **3** | **Dividend Income** | | |
| | Dividend quoted & unquoted shares | 131,054,661 | 142,267,602 |
| | *Dividends from KUSCCO shares* | 5,114,996 | 5,114,996 |
| | | **136,169,657** | **147,382,598** |
| **4** | **Interest expense** | | |
| | Interest expense on members deposits | 1,738,381,901 | 1,449,285,059 |
| | | **1,738,381,901** | **1,449,285,059** |
| **5** | **Fees & Commissions Income** | | |
| | Loans processing fees | 212,160,430 | 202,032,192 |
| | Commissions received & other charges | 114,961,509 | 95,937,727 |
| | Salaries processing fees | 30,964,200 | 25,413,200 |
| | Dormant accounts activation fees | 16,108,800 | 7,455,200 |
| | Members withdrawal fees | 14,853,242 | 14,885,068 |
| | Deposits withdrawal processing commissions | 14,070,110 | 13,966,302 |
| | Cash withdrwal charges | 10,093,800 | 12,127,000 |
| | Entrance fees | 3,922,384 | 842,243 |
| | Bankers cheques fees | 3,502,100 | 4,038,600 |
| | Member statements | 642,800 | 667,900 |
| | Property transfer fees | 592,400 | 400,400 |
| | | **421,871,775** | **377,765,832** |
| **6** | **Other operating income** | | |
| | Rental income | 65,308,740 | 58,009,313 |
| | Gain from sale of Assets | 1,338,038 | - |
| | Reduction in provision for leave days | 490,367 | - |
| | Harambee DT SACCO Insurance Agency Income | 468,332 | 204,100 |
| | Premier club | 221,800 | 71,823 |
| | Tender income | 65,850 | 94,000 |
| | Sale of obsolete assets | 1,500 | - |
| | **Net operating income** | **67,894,627** | **58,379,236** |

| | | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| **7** | **Finance expenses** | | |
| | Provision for unrealizable assets | 583,150,425 | 583,150,425 |
| | Interest on bank loan | 364,333,020 | 401,036,790 |
| | Interest on bank overdraft | 59,660,536 | 61,874,976 |
| | Interest In Fixed Deposit / Call Accounts | 6,958,206 | 3,193,254 |
| | Interest on Leases property | 4,507,022 | 4,825,310 |
| | | **1,018,609,208** | **1,054,080,754** |
| | Net provision for loan losses | 16,736,594 | 51,810,741 |
| | Prov. For Bad Doubtful Debts- Remittances | 20,000,000 | - |
| | **Total** | **1,055,345,803** | **1,105,891,495** |
| **8** | **Personnel Expenses** | | |
| | Salaries and Wages - Basic Salary | 188,041,664 | 163,850,745 |
| | Housing & Commuter Allowance | 81,937,548 | 72,894,655 |
| | Staff Medical Insurance Cover | 41,581,942 | 36,816,465 |
| | Staff Training Expenses | 27,049,763 | 5,658,747 |
| | Pension Fund Employer Contribution | 23,464,820 | 20,961,052 |
| | Staff Extraneous Allowances | 14,342,750 | 10,221,300 |
| | Staff Leave Allowance | 10,240,208 | 9,463,024 |
| | Gratuities | 9,916,994 | 7,397,827 |
| | Group Life Insurance Cover | 6,322,584 | 5,105,213 |
| | Staff Welfare | 5,748,035 | 6,551,420 |
| | Staff Annual Party | 5,693,500 | 4,017,000 |
| | Staff Overtime | 2,425,155 | 1,278,373 |
| | Staff Travel Expenses | 2,294,604 | 3,463,670 |
| | Staff Personal Accident Insurance Cover | 2,046,920 | 2,046,920 |
| | Staff Transfer Expenses | 1,262,210 | 1,371,526 |
| | Staff Utility Allowance | 1,178,000 | 1,080,000 |
| | Staff Recruitment & Advertisement Expenses | 1,175,700 | 4,909,800 |
| | Staff Benevolence and Funeral Expenses | 1,126,552 | 297,250 |
| | Staff Entertainment | 1,041,402 | 446,355 |
| | Casual Expenses | 660,073 | 1,503,983 |
| | Workman's Compensation Insurance Cover | 588,271 | 588,271 |
| | NSSF Employers' Contribution | 376,000 | 328,800 |
| | Staff Long Service Awards | 285,714 | 600,000 |
| | Staff Uniform | - | 3,319,352 |
| | Provision for Outstanding leave days | - | 497,752 |
| | | **428,800,410** | **364,669,498** |
| | **No. of fulltime staff** | | |
| | The number of full time staff as at 31 Dec 2022 | 139 | 123 |

| 9 | Administrative Expenses | 2022 (Kshs) | 2021 (Kshs) |
|---|---|---|---|
| | Sink fund deficits | 184,012,484 | 14,874,847 |
| | Professional Fees | 113,412,663 | 22,158,064.74 |
| | Computer & Software Expenses | 36,920,958 | 36,221,811.50 |
| | Government computer Services -GCS | 29,511,391 | 27,440,159.00 |
| | Telephone, postage, Bulk SMS & Cables Expenses | 25,758,029 | 14,821,262.33 |
| | Legal Fees | 16,933,996 | 6,978,390.00 |
| | Licences | 11,180,965 | 10,975,691.00 |
| | Corporate & Comm expenses | 11,164,250 | - |
| | Audit & Statutory Supervision Expenses | 9,479,688 | 4,762,100.00 |
| | Bank Charges | 5,583,078 | 6,924,902 |
| | Paybill Transaction Charges | 5,500,705 | 1,910,768.00 |
| | Subscriptions & Donations | 3,113,673 | 2,596,544.00 |
| | Ushirika day | 2,788,200 | - |
| | Printing & Stationery Expenses | 1,712,483 | 1,956,277.00 |
| | Inventory Expenses | 1,190,906 | 41,338,352 |
| | Bad debts written off | 67,424 | 2,678,025 |
| | Stamp duty | - | 3,517,580 |
| | Harambee Pesa Agency Expenses | - | 481,074.20 |
| | | **458,330,892** | **199,635,848** |
| **10** | **Governance Expenses (Member related costs)** | | |
| | Members' Education Expenses | 96,475,380 | 83,803,748 |
| | Branch Delegates Expenses | 62,767,329 | 62,557,385 |
| | Delegate Training Expenses | 51,707,630 | 2,663,185 |
| | Annual Delegate Meeting (ADM) Expenses | 33,590,481 | 29,235,693 |
| | Board of Directors Sitting Allowances | 26,265,000 | 28,067,600 |
| | Strategy and Policies Review Costs | 10,251,660 | 13,387,804 |
| | Delegate Group Personal Accident Cover | 1,456,023 | 1,456,023 |
| | | **282,513,504** | **221,171,438** |
| **11** | **Marketing Expense** | | |
| | Advertising and Public Relations Expenses | 138,704,469 | 82,219,867 |
| | Members' Recruitment Expenses | 13,042,564 | 18,061,360 |
| | Products development & promotion Expenses | 10,679,927 | 11,512,250 |
| | Customer Care costs | 1,534,887 | 4,161,805 |
| | Corporate Social Resp. | 1,491,250 | - |
| | | **165,453,096** | **115,955,282** |
| **12** | **Other operating Expenses** | | |
| | Repairs and Maintenance | 22,697,643 | 30,021,961 |
| | Security Expenses | 18,962,055 | 19,459,503 |
| | Water and electricity bills | 11,075,767 | 13,135,079 |
| | Assets insurance covers | 9,017,819 | 8,566,531 |
| | Cleaning and Hygiene-Plaza | 5,493,370 | 8,897,637 |
| | Rent and rates | 777,416 | 2,807,990 |
| | Motor Vehicle running expenses | 450,639 | 591,878 |
| | General Expenses | 37,453 | 1,731,913 |
| | | **68,512,162** | **85,212,492** |
| **13** | **Depreciation & Amortisation expense** | | |
| | Depreciation charge | 36,004,465 | 38,321,824 |
| | Amortisation of intangible expense | 19,381,957 | 26,381,370 |
| | Amortization Expenses on Right Use Asset | 5,932,225 | 8,845,142 |
| | | **61,318,646** | **35,226,512** |

| | | | 2022 (Ksh) | 2021 (Ksh) |
|---|---|---|---|---|
| **14 Loan To Members** | | | | |
| **A BOSA Loans** | | | | |
| Jisaidie Loans Top-up Loan | | | 7,254,003,810 | 9,683,618,977 |
| Inuka Loan | | | 5,898,942,470 | 2,662,402,299 |
| Development Loan | | | 4,260,662,427 | 4,922,627,359 |
| Inuka 72 Loan | | | 3,703,415,274 | 744,668,415 |
| Jisaidie 72 Loan | | | 3,562,900,702 | 4,233,561,346 |
| Dividend in Advance loan | | | 616,606,472 | 511,019,167 |
| Defaulter Loan | | | 523,441,106 | 406,504,344 |
| Karibu Loan | | | 449,626,236 | 24,748,036 |
| Emergency Loan | | | 336,241,778 | 479,177,070 |
| M-Boosta Loan | | | 227,257,318 | 120,168,772 |
| School Fee Loan | | | 135,399,712 | 201,461,839 |
| Mortgage Loan-Construction | | | 14,800,582 | 10,551,239 |
| Mkombozi Loan | | | 12,710,133 | 26,311,751 |
| Mortgage Loan-Purchase | | | 6,801,853 | 3,115,736 |
| MOU Loan | | | 539,668 | 1,374,960 |
| Safaricom Product Loan | | | 2 | 2 |
| Maendeleo Loan | | | - | 57,001 |
| | | | **27,003,349,543** | **24,031,368,313** |
| **Less:** | | | | |
| Loan loss provision | | | (433,715,725) | (416,979,131) |
| | | | **26,569,633,818** | **23,614,389,182** |
| **B FOSA Loans** | | | | |
| Salary Advance Loan | | | 578,334,906 | 668,461,504 |
| Personal Loan | | | 64,670,868 | 71,237,234 |
| Finje Chap Chap Loan | | | 8,543,422 | 9,203,949 |
| Salary in Advance Loan | | | 6,975,648 | 8,413,664 |
| Jisort Advance Loan | | | 6,600,724 | 9,162,672 |
| | | | **665,125,568** | **766,479,023** |
| **Total Loan To Members** | | | **27,234,759,386** | **24,380,868,205** |
| **Loans Movement Schedule** | | BOSA Loans (Ksh) | FOSA Loans (Ksh) | Total (Ksh) |
| At the start of the year | | 23,614,389,182 | 766,479,023 | 24,380,868,205 |
| Granted during the year | | 21,224,341,564 | 3,352,791,448 | 24,577,133,012 |
| Repayments made during the year | | (17,835,381,202) | (3,454,144,903) | (21,289,526,105) |
| Loan loss provision | | (425,438,605) | (8,277,120) | (433,715,725) |
| **Balance at the end of the year** | | **26,577,910,938** | **656,848,448** | **27,234,759,386** |
| **Aging of Non Performing Loans** | No. of accounts | Total Loan portfolio | Provision | Net loan balance |
| 0 Days Performing - 1% | 141,830 | 26,513,101,651 | 265,131,017 | 26,247,970,635 |
| 1-30 Days Watch - 5% | 9,510 | 770,956,256 | 38,547,813 | 732,408,443 |
| 31-80 Days Substandard - 25% | 4,478 | 326,797,992 | 81,699,498 | 245,098,494 |
| 181-360 Days Doubtful - 50% | 277 | 20,351,270 | 10,175,635 | 10,175,635 |
| >360 Days Loss - 100% | 284 | 38,161,763 | 38,161,763 | - |
| | **156,379** | **27,669,368,932** | **433,715,725** | **27,235,653,206** |
| | | | **VARIANCE** | **(893,820)** |

There is a unreconciled difference between the Member's loan listings and General ledger balances of Kshs 893,820. Reconciliation of this variance is ongoing.

The society has a loan guard policy on all classes of loans issued by CIC insurance in which there is compensation of insured loan balance in the event of death or total permanent disability of a member

In the opinion of the directors, the carrying amounts of loans and advances to customers approximate their fair value.

The effective interest rate on loans is 13.8% (2021:13.5%)

| | | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| **14** | **Insider loans and Advances** | | |
| | At start of year | 337,340,359 | 306,805,978 |
| | Advances | 351,995,600 | 295,780,851 |
| | Interest charged | 55,390,576 | 43,091,805 |
| | Repayment | (344,370,086) | (308,338,275) |
| | **At end of year** | **400,356,448** | **337,340,359** |
| | | | |
| | **Insider loans and Advances** | | |
| | Directors | 47,145,228 | 45,055,517 |
| | Supervisory | 6,142,490 | 7,793,224 |
| | Key Management staff | 82,275,215 | 77,336,396 |
| | Other Employees | 264,793,515 | 207,155,222 |
| | | **400,356,448** | **337,340,359** |

Loans and advances to Directors and staff (related parties) are subject to interest rates that are applicable to all members, have due dates at the end of every month and are fully secured.

| | | | | |
|---|---|---|---|---|
| **15** | **Investment properties** | | | |
| | Value as at 1st Jan 2022 | | 3,020,000,000 | 3,020,000,000 |
| | Addition | | - | - |
| | **Value as at 31st Dec 2022** | | **3,020,000,000** | **3,020,000,000** |
| | **Movement in investment properties** | | | |
| | | **Harambee Plaza** | **Others** | **TOTAL** |
| | | **Ksh.** | **Ksh.** | **Ksh.** |
| | Value as at 1st January 2022 | 1,700,000,000 | 1,320,000,000 | 3,020,000,000 |
| | Revaluation done during the year | - | - | - |
| | **Value as at 31st Dec 2022** | **1,700,000,000** | **1,320,000,000** | **3,020,000,000** |

The properties were valued by Dansal & Associates Ltd in Sept 2019 on the basis of market value. The gain arising from the change in the fair value of the properties was recognised in the Income Statement for the period (IAS 40 clause 35). The Society's policy is to revalue its assets after every 3 years.

Other land and buildings include other properties owned by the Society such as Nyali Houses.

| | 2022 Kshs | 2021 Kshs |
|---|---|---|
| Rental income (Note 6) | 65,308,740 | 58,009,313 |
| Direct rental expenses arising from investment properties that generate rental income | (61,120,749) | (40,502,183) |
| Net rental income | 4,187,991 | 17,507,130 |

| NOTES TO THE ACCOUNTS CONTD. | 2022 (Ksh) | 2021 (Ksh) |
|---|---|---|
| **16 Land Projects** | | |
| Greenfields | 452,168,422 | 452,168,422 |
| Muranga | 68,000,000 | 68,000,000 |
| Kisumu | 57,954,474 | 57,954,474 |
| Siaya | 40,000,000 | 40,000,000 |
| Nanyuki | 12,018,900 | 12,018,900 |
| Voi 1 | 3,219,105 | 3,219,105 |
| Mombasa | 953,026 | 953,026 |
| Busia | 783,568 | 783,568 |
| Uasin gishu | 215,600 | 215,600 |
| Athi river | 115,517 | 115,517 |
| Provision for bad debts | (6,111,133) | (6,111,133) |
| | **629,317,479** | **629,317,479** |

Some of the land projects were valued by Dansal & Associates Ltd in September 2019 on the basis of market value. The gain arising from the change in the fair value of the land projects has been recognised in the Income Statement for the period (IAS 40 clause 35).

The Society's policy is to revalue its assets after every 3 years.

### 17 FIXED ASSETS

| Year 2022 | Equipment Ksh 12.5% | Fixtures and Fittings Ksh 12.5% | Furniture Ksh 12.5% | Computers Ksh 30.0% | Motor Vehicles Ksh 25.0% | Motor Cyles Ksh 25.0% | Total Ksh |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| **As at January 2022** | **259,228,569** | **177,730,842** | **23,596,538** | **258,635,362** | **9,327,010** | **257,655** | **728,775,975** |
| Additions | 3,648,914 | 865,797 | 2,752,721 | 7,796,057 | 4,500,000 | - | **19,563,490** |
| Disposal | - | - | - | - | (6,995,259) | (128,827) | **(7,124,086)** |
| **As at December 2022** | **262,877,484** | **178,596,639** | **26,349,259** | **266,431,419** | **6,831,751** | **128,828** | **741,215,379** |
| **DEPRECIATION** | | | | | | | |
| **As at January 2022** | **150,552,813** | **91,546,345** | **15,343,954** | **237,453,065** | **8,678,656** | **223,261** | **503,798,094** |
| Charge for the year | 14,040,584 | 10,881,287 | 1,375,663 | 8,693,506 | 1,188,315 | 5,106 | **36,184,461** |
| Disposal | - | - | - | - | (6,600,166) | (114,856) | **(6,715,022)** |
| **As at December 2022** | **164,593,397** | **102,427,632** | **16,719,617** | **246,146,571** | **3,266,805** | **113,510** | **533,267,533** |
| **NET BOOK VALUE** | | | | | | | |
| **As at December 2022** | **98,284,086** | **76,169,007** | **9,629,642** | **20,284,848** | **3,564,946** | **15,317** | **207,947,846** |
| | | | | | | | |
| Year 2021 | | | | | | | |
| **COST** | | | | | | | |
| **As at January 2021** | **253,443,990** | **141,148,116** | **21,218,373** | **247,931,540** | **9,327,010** | **257,655** | **673,326,682** |
| Additions | 5,784,579 | 36,582,726 | 2,378,165 | 10,703,822 | - | - | **55,449,293** |
| Disposal | - | - | - | - | - | - | **-** |
| **As at December 2021** | **259,228,569** | **177,730,842** | **23,596,538** | **258,635,362** | **9,327,010** | **257,655** | **728,775,975** |
| **DEPRECIATION** | | | | | | | |
| **As at January 2021** | **135,027,705** | **79,234,274** | **14,165,014** | **228,374,937** | **8,462,536** | **211,798** | **465,476,264** |
| Charge for the year | 15,525,108 | 12,312,071 | 1,178,941 | 9,078,127 | 216,120 | 11,462 | **38,321,830** |
| Disposal | - | - | - | - | | | - |
| **As at December 2021** | **150,552,813** | **91,546,345** | **15,343,954** | **237,453,065** | **8,678,656** | **223,261** | **503,798,094** |
| **NET BOOK VALUE** | | | | | | | |
| **As at December 2021** | **108,675,756** | **86,184,496** | **8,252,584** | **21,182,297** | **648,354** | **34,394** | **224,977,881** |

## 18. INTANGIBLE ASSETS

| | 2022 Ksh | 2021 Ksh |
|---|---|---|
| **Cost** | | |
| As at 1st January | 334,767,815 | 329,907,989 |
| Additional | 3,050,000 | 4,859,826 |
| Write off - Oracle | (159,925,267) | - |
| **As at 31 December** | **177,892,549** | **334,767,815** |
| **Amortization** | | |
| As at 1st January | 273,211,290 | 246,829,920 |
| Write off- Oracle | (159,925,267) | - |
| Charge for the year | 19,381,957 | 26,381,370 |
| **As at 31 December** | **132,667,980** | **273,211,290** |
| **Net Book value** | | |
| **As at 31 December** | **45,224,569** | **61,556,525** |

| | NOTES TO THE ACCOUNTS CONTD. | 2022 Ksh | 2021 Ksh |
|---|---|---|---|
| 19 | Receivables & Prepayments | | |
| | **Unrealizable Assets** | | |
| a | As at 1 January | 2,324,931,094 | 2,898,782,817 |
| | Unreconciled balance in the year | 556,144 | 9,298,702 |
| | Provision for the year | (583,150,425) | (583,150,425) |
| | **Balance of Unrealizable Asset** | **1,742,336,813** | **2,324,931,094** |
| b | **Others Receivables** | | |
| | Remittances due | 1,165,933,925 | 1,134,569,199 |
| | Other receivables | 142,156,249 | 175,241,317 |
| | Interest receivable | 123,058,930 | 120,867,121 |
| | Rent receivables | 109,088,492 | 97,796,174 |
| | Claims due from insurance | - | 10,102,861 |
| | Harambee Investment Society ltd | - | 208,494,100 |
| | : | **1,540,237,596** | **1,747,070,772** |
| | Less: | | |
| | Provision for bad & doubtful debts-Remittances (Bal B/fwd) | (395,546,558) | (395,546,558) |
| | Charge for the year | (20,000,000) | - |
| | | **1,124,691,038** | **1,351,524,214** |
| | **TOTAL** | **2,867,027,851** | **3,676,455,308** |
| 20 | **Inventories** | | |
| | Consumables | 297,381 | - |
| | The Society did not hold any inventory with realisable value as at the close of the year 2021 | **297,381** | **-** |
| 21 | **Financial investment** | | |
| a | **Quoted** | | |
| | Investments - CIC | 197,181,058 | 197,181,058 |
| | Co-operative Bank(Shares) | 43,501,853 | 43,501,853 |
| | Investments - KENGEN SHARES | 184,735 | 237,516 |
| | | **240,867,645** | **240,920,426** |
| b | **Unquoted** | | |
| | Investments - COOP HOLDINGS | 1,376,829,300 | 1,376,829,300 |
| | Investments - KUSCCO(shares) | 141,689,619 | 141,689,619 |
| | Investments - Harambee Housing Investment Society Ltd | 50,000,000 | 50,000,000 |
| | Investment-Kenya Mortgage Refinancing company-KMRC | 25,000,000 | 25,000,000 |
| | Investments - CODIC | - | - |
| | | **1,593,518,919** | **1,593,518,919** |
| | **Total financial investment** | **1,834,386,564** | **1,834,439,345** |

**Financial Investments**

| Security | Value per share | No. of Shares |
|---|---|---|
| Co-op Holdings | 9.50 | 144,929,400 |
| CIC | 3.50 | 56,337,445 |
| Cooperative Bank | 12.30 | 3,536,736 |
| KUSCCO | 100.00 | 1,416,896 |
| KENGEN | 3.22 | 57,371 |

## NOTES TO THE ACCOUNTS CONTD.

| | 2022 Kshs | 2021 Kshs |
|---|---|---|
| **22 Cash & cash Equivalent** | | |
| **Cash in Hand** | | |
| Treasury Cash - FOSA | 17,515,329 | 26,332,243 |
| Cash in Hand BOSA | 6,094,420 | 6,104,454 |
| Cash in Hand FOSA | 4,942,536 | 4,948,033 |
| Cash at Bank | | |
| Mpesa Bank account | 371,640,266 | 519,714,890 |
| Current accounts | 328,668,161 | (151,078,988) |
| CIC Money Market | 307,887,879 | 286,380,063 |
| CBA Mortgage A/C | 48,899,653 | 47,008,939 |
| Deposits with KUSCCO | 40,620,689 | 38,829,317 |
| Cooperative bank savings account-main | 15,423,177 | 6,728,826 |
| MPESA Utility Bank Account | 6,838,032 | 1,337,678 |
| Fixed Deposit | 96,250 | - |
| Bank - Statutory Reserve Account | 44,314 | 193,741 |
| | **1,148,670,706** | **786,499,196** |
| **23 Members deposits and Savings** | | |
| Member BOSA Deposits (MPA) | 22,120,736,141 | 21,224,720,448 |
| Member Savings Acc FOSA | 1,226,935,649 | 1,091,369,767 |
| Fixed Deposit / Call Deposit Accounts | 169,465,020 | 49,544,569 |
| Harambee Plaza Shares-H.P.S | 163,953,190 | 164,022,044 |
| Harambee Investment Savings Account | 12,184,110 | 8,906,066 |
| Giant Junior Savings Account | 4,363,990 | 1,721,911 |
| Business Savings Accounts | 2,240,138 | - |
| Corporate Savings Acc FOSA | 265,933 | 188,215 |
| | **23,700,144,171** | **22,540,473,020** |

### 2022 Movement in Deposits and savings

| | Withdrawable FOSA Savings | Short term Deposits | Non withdrawable Deposits (BOSA) | Total Deposits |
|---|---|---|---|---|
| As at 01 January | 1,091,369,767 | 224,382,806 | 21,224,720,448 | 22,540,473,020 |
| Deposits during the yearWithdrawal/refunds | 33,809,838,597 | 21,976,597 | 3,686,303,385 | 37,518,118,578 |
| during the year | (33,674,272,714) | (12,046,994) | (2,790,287,691) | (36,476,607,400) |
| **As at 31 December** | **1,226,935,649** | **234,312,408** | **22,120,736,141** | **23,581,984,198** |

### 2021 Movement in Deposits and savings

| | | | | |
|---|---|---|---|---|
| As at 01 January | 1,165,547,554 | 164,059,055 | 20,196,447,772 | 21,526,054,381 |
| Deposits during the year | 29,916,514,507 | 94,312,376 | 3,196,425,624 | 33,207,252,506 |
| Withdrawal/refunds during the year | (29,990,692,294) | (33,988,625) | (2,168,152,948) | (32,192,833,867) |
| **As at 31 December** | **1,091,369,767** | **224,382,806** | **21,224,720,448** | **22,540,473,020** |

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

| | NOTES TO THE ACCOUNTS CONTD. | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| 24 | **Land Projects deposits** | | |
| | Greenfields | 321,635,603 | 321,635,603 |
| | Voi Plots | 2,526,737 | 2,526,737 |
| | Kisumu | 2,457,733 | 3,622,733 |
| | Mombasa plots | 1,909,756 | 1,909,756 |
| | Busia plots | 773,568 | 773,568 |
| | Uasin gishu | 271,000 | 271,000 |
| | Athi River Plots | 232,071 | 232,071 |
| | Muranga project | 14,000 | 14,000 |
| | Siaya | 5,000 | 5,000 |
| | | **329,825,468** | **330,990,468** |
| 25 | **Borrowings** | | |
| | Term Loan - CoopBank | 3,325,000,000 | 2,145,000,000 |
| | Workig Capital Facility | 200,000,000 | 1,321,944,444 |
| | Loan Capital - Kuscco | - | - |
| | | **3,525,000,000** | **3,466,944,444** |
| | **Loans Movement** | | |
| | At 1st January | 3,466,944,444 | 3,023,056,488 |
| | Advanced in the year | 3,700,000,000 | 3,234,280,483 |
| | Repayments | (3,641,944,444) | (2,790,392,527) |
| | **Balance as at 31st December** | **3,525,000,000** | **3,466,944,444** |
| | The borrowings are analysed as follows: | | |
| | Current | - | - |
| | Non -current | 3,525,000,000 | 3,466,944,444 |
| | | **3,525,000,000** | **3,466,944,444** |

The Term loan from Cooperative Bank of Kenya is secured by a legal charge on LR/209/9966 Harambee plaza and a lien over the society's savings deposits with the bank.

There are no borrowings exceeding the core capital nor are there any borrowings exceeding 25% of the total assets.

The exposure of the society's borrowings to interest rate changes and the contractual reprising dates at the reporting date are as follows:

| | | |
|---|---|---|
| Non-interest bearing | - | - |
| 6 months or less | 200,000,000.00 | - |
| 6 - 12 months | - | - |
| 1 - 5 years | 3,525,000,000 | 3,466,944,444 |
| Over 5 years | - | - |
| | 3,725,000,000.01 | 3,466,944,444 |

In the opinion of the directors, the carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the society's borrowings are denominated entirely in Kenya Shillings.

| 26 | Payables & Accruals | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| | Other payables & accruals | 560,513,986 | 122,686,928 |
| | Society returned cheques | 45,836,902 | 46,048,875 |
| | Creditors & accruals- Sale of properties (Houses) | 33,555,528 | 33,555,015 |
| | Society general control account-Funds in transists | 23,055,817 | 23,055,342 |
| | Harambee Investment-Land deposits | 6,229,902 | 1,581,565 |
| | Provisions for outstanding leave days | 2,614,927 | 3,209,018 |
| | Unallocated receipts | 483,885 | 6,026,283 |
| | | **672,290,948** | **236,163,027** |

In the opinion of the directors, the carrying amounts of other payables approximate their fair value. The maturity analysis of the society's other payables is as follows:

| 2022 | 0 to 1 month Kshs | 2 to 3 months Kshs | 4 to 12 months Kshs | Total Kshs |
|---|---|---|---|---|
| Trade payables | 8,160,679 | - | - | 8,160,679 |
| Accruals | - | 2,614,927 | 16,296,220 | 18,911,147 |
| Other payables | 46,291,811 | 483,885 | 598,443,426 | 645,219,122 |
| | **54,452,490** | **3,098,813** | **614,739,646** | **672,290,948** |
| **2021** | **0 to 1 month Kshs** | **2 to 3 months Kshs** | **4 to 12 months Kshs** | **TotalKshs** |
| Trade payables | 9,714,327 | 122,686,928 | - | 132,401,256 |
| Accruals | - | - | 6,026,283 | 6,026,283 |
| Other payables | 37,389,714 | 3,209,018 | 57,136,756 | 97,735,488 |
| | **47,104,042** | **125,895,946** | **63,163,039** | **236,163,027** |

| | | 2022 | 2021 |
|---|---|---|---|
| **27** | **Taxation** | | |
| | As at 01 January | (27,634) | 8,115,624 |
| | Charge for the year | 88,160,277 | 33,908,606 |
| | Payment made during the year | (63,544,419) | (42,051,865) |
| | **As at 31 December** | **24,588,223.41** | **(27,634)** |
| **28 a** | **Interests Members deposits** | | |
| | As at 01 January | 1,459,285,059 | 1,202,587,638 |
| | Proposed interest on members deposits | 1,738,381,901 | 1,449,285,059 |
| | Payments during the year | (1,398,033,397) | (1,122,981,915) |
| | Prior year Over provision | - | (69,605,723) |
| | **As at 31 December** | **1,799,633,563** | **1,459,285,059** |
| **b** | **Dividended, Honoraria & Staff Bonus** | | |
| | As at 01 January | 183,884,968 | 119,303,895 |
| | Payments during the year | (183,884,968) | (119,303,895) |
| | Proposed dividends to members | 217,028,799 | 164,503,919 |
| | Proposed BOD Honoraria & Staff Bonus | 22,500,049 | 19,381,049 |
| | **As at 31 December** | **239,528,848** | **183,884,968** |

The directors recommended a provision of 8% (2021:7.0%) interest on members deposits and a provision of 10%(2021:8%) dividends on share capital.

| | NOTES TO THE ACCOUNTS CONTD. | 2022 Kshs | 2021 Kshs |
|---|---|---|---|
| 29 | **Share Capital** | | |
| | Undetermined number of shares of Kshs 20/= each issued and paid | | |
| | As at 01 January | 2,056,298,992 | 1,988,324,747 |
| | Issued Share Capital | 113,988,997 | 67,974,245 |
| | **As at 31 December** | **2,170,287,989** | **2,056,298,992** |
| 30 | **Reserves** | | |
| | Assets revaluation reserve | 2,564,740,896 | 2,564,793,677 |
| | Statutory reserves | 1,113,210,710 | 1,113,210,710 |
| | Retained Earnings | 685,789,205 | 500,521,821 |
| | Capital reserves | 158,366,719 | 158,366,719 |
| | | **4,522,107,530** | **4,336,892,928** |
| 31 | **Sinking fund** | | |
| | Income Member Contributions | 214,906,132 | 217,706,811 |
| | Receipts from CIC | 1,018,937,625 | 699,990,869 |
| | CIC Claims Recovered | 6,330,000 | - |
| | Claims in transit | (25,749,137) | 10,102,861 |
| | **Contributions during the year** | **1,214,424,620** | **927,800,541** |
| | **Expenditure** | | |
| | Funeral expenses | 993,188,488 | 710,093,729 |
| | Premiums Paid Loan Guard Insurance Cover Plus financing | 405,248,616 | 232,581,659 |
| | Loans claimable from CIC | - | - |
| | | 1,398,437,104 | 942,675,388 |
| | **Surplus( Loss)for the year** | **(184,012,484)** | **(14,874,847)** |
| 32 | **Rights of use assets (IFRS16)** | | |
| | **Cost:** | | |
| | At start of the year | 29,710,183 | 29,710,183 |
| | New lease | 21,199,261 | - |
| | Eliminated after end of lease | - | - |
| | At end of the year | **50,909,445** | **29,710,183** |
| | **Accumulated depreciation:** | | |
| | At start of the year | 20,705,185.99 | 20,705,186 |
| | Charge for the year | 5,932,225 | 8,845,143 |
| | Eliminated upon lease end | - | - |
| | At end of the year | **26,637,411** | **20,705,186** |
| | | | |
| | **Carrying Amount** | **24,272,034** | **9,004,997** |
| 33 | **Lease liabilities (IFRS 16)** | | |
| | At start of the year | 12,186,030 | 7,360,720 |
| | Additional | 11,804,025 | - |
| | Charge for the year | 4,507,022 | 4,825,310 |
| | | **28,497,076** | **12,186,030** |
| | Non Current | - | - |
| | Current | 28,497,076 | 12,186,030 |
| | | **28,497,076** | **12,186,030** |
| | **Total Cash Outflow for leases in the year** | | |
| | Payment of principle portion of the lease liability | 9,395,236 | 8,517,917 |
| | Interest paid on lease liabilities | 4,507,022 | 4,825,310 |
| | | **13,902,258** | **13,343,226** |

## NOTES TO THE ACCOUNTS CONTD.

| | 2022 Kshs | 2021 Kshs |
|---|---|---|
| **34 Staff Gratuity** | | |
| At start of the year | 9,506,315 | 15,386,660 |
| Addition provision during the year | 9,916,994 | 8,042,663 |
| Payment during the year | (3,127,089) | (13,923,007) |
| **At end of the year** | **16,296,220** | **9,506,315** |
| **Analyzed as:** | | |
| Current | - | - |
| Non Current | 16,296,220 | 9,506,315 |
| | **16,296,220** | **9,506,315** |
| **35 Other Accrued liabilities** | | |
| **Staff Outstanding leave days** | | |
| At start of the year | 3,209,018 | 2,711,266 |
| Charge to income statement | (490,367) | 497,752 |
| **At end of the year** | **2,718,651** | **3,209,018** |

### 36 Related party transactions and balances

The following transactions were carried out with related parties:

| | 2022 Kshs | 2021 Kshs |
|---|---|---|
| **a Insider deposits** | | |
| **Total deposits and savings outstanding at year end** | | |
| Due to Supervisory Committee | 5,941,020 | 5,220,020 |
| Due to directors | 34,576,799 | 30,159,911 |
| Due to key management | 33,638,695 | 26,970,697 |
| Due to other employees | 83,996,672 | 71,949,228 |
| **At end of year** | **158,153,185** | **134,299,856** |
| **b Senior management personnel compensation** | | |
| Post employment benefit | 33,381,814 | 56,887,284 |
| Due to other employees | 394,928,229 | 307,782,214 |
| | **428,310,043** | **364,669,498** |
| **c Insider loans and Advances** | | |
| At start of year | 337,340,359 | 306,805,978 |
| Advances | 351,995,600 | 295,780,851 |
| Interest charged | 55,390,576 | 43,091,805 |
| Repayment | (344,370,086) | (308,338,275) |
| **At end of year** | **400,356,448** | **337,340,359** |
| **Analysis of Insider loans and Advances:** | | |
| Directors | 47,145,228 | 45,055,517 |
| Supervisory | 6,142,490 | 7,793,224 |
| Key Management staff | 82,275,215 | 77,336,396 |
| Other Employees | 264,793,515 | 207,155,222 |
| | **400,356,448** | **337,340,359** |

Loans and advances to Directors and staff (related parties) are subject to interest rates that are applicable to all members, have due dates at the end of every month and are fully secured.

## 37 Commitments and contingencies

There are a number of cases against the SACCO pending before the courts for which rulings were yet to be made. The directors based on advise from the legal advisers do not expect any major claims to arise from these cases. Therefore no provision has been made in these financial statements.

## 38 Capital management

**Internally imposed capital requirements**

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

The capital structure of the society consists of net debt calculated as sum of total borrowings and members' deposits (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising investment shares, reserves and appropriation account).

The directors review the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

In order to maintain the capital structure, the society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The society's overall strategy remain unchanged from 2022.

### Externally imposed capital requirements

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

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

The ratios at 31 December 2022 and 2021 were as follows:

| | 2022 Kshs | 2021 Kshs |
|---|---|---|
| **a) Core capital of not less than Shs 10 million** | | |
| As per statement of financial position | 4,127,654,622 | 3,828,398,243 |
| **b) Core capital of not less than 10% of total assets** | | |
| As per statement of financial position | 11.2% | 11.1% |
| **c) Institutional capital of not less than 8% of total assets** | | |
| As per statement of financial position | 5.3% | 5.1% |
| **d) Core capital of not less than 8% of total deposits** | | |
| As per statement of financial position | 17.4% | 17.0% |

## 39 Incorporation

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

## 40 Presentation currency

The financial statements are presented in Kenya Shillings (Shs.)/Kenya Shillings rounded off to the nearest shilling.

# NOTES


We have something great for you
to enjoy in your
GOLDEN YEARS!
Our Wafanisi Members who wish to continue with the Sacco after retirement are allowed to:
• Withdraw a part of their deposits
• Take out loans X3 or X4 of deposits
• Self-guarantee
• Prepayments allowed at no extra cost

**HARAMBEE DT SACCO SOCIETY LTD.**
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Harambee Sacco