ANNUAL FINANCIAL STATEMENTS AND REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2017 ENDED

Contents of Financials

Society Information

BOARD OF DIRECTORS	: Joseph Ngaai	- Chairman
	: James Kamau Kinoro	- Vice Chairman
	: Peter Mwangi	- Member
	: Gabriel Mugo	- Member
	: Rhodah Gachoka	- Member
	: Erastus Mwangi	- Member
	: Frashiah Kamuri	- Member
	: Francis Mburu Nganga	- Member
	: Michael Muriithi	- Member
SUPERVISORY COMMITTEE:	Solomon G.Mwangi	- Chairman
	: John Kiiru	- Secretary
	: Samuel Gachau	- Member
MANAGEMENT STAFF	: Tony Mwangi	- Chief Executive Officer
	: Nyaga Thagichu	- Chief Manager HR & Administration
	:Peter Njuguna	- Chief Manager Commercial
	: Rosemary Karanja	- Chief Manager Finance and Strategy
	: Martin Muhoho	- Chief Manager Risk and Compliance
	: Edwin Njeru	- Chief Manager Internal Audit
	Irene Lagat	- AG.Chief Manager IT

REGISTERED OFFICE	:Unaitas Sacco Society Ltd
	: Head Office
	: Cardinal Otunga Plaza
	: Cardinal Otunga Street
	: P.O. Box 38721, 00100
	: Nairobi
	: Telephone 020-2425958, 0721-244139,
	: 0775-530310
AUDITOR	: PKF Kenya
	: Certified Public Accountants
	: P.O. Box 14077, 00800
	: NAIROBI
PRINCIPAL BANKERS	: Co-operative Bank of Kenya Limited
	: Kenya Commercial Bank Ltd
LEGAL ADVISORS	: Mutua Waweru Advocates
	: P.O.Box 102998, 00101
	: Nairobi
	: Osoro Chege Kibathi & Company Advocates
	: P. O. Box 21838, 00100
	: NAIROBI
	: Maina and Partners
	: P.O.Box 1198, 00100
	: NAIROBI

Directors' Report

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2017 which show the society's state of affairs.

Incorporation

The society is incorporated in Kenya under the Co-operative Societies Act, Cap 490 and is domiciled in Kenya. It was registered as a Sacco under the Sacco Societies Act with effect from 22 December 2011.

Principal Activity

The principal activity of the society continues to be receiving savings from and provision of loans to its members.

Results

	2017	2016
	Shs	Shs
Profit before tax	352,375,921	279,986,163
Tax Charge	(14,338,575)	(12,156,817)
Profit for the year	338,037,346	267,829,346
Interest on members' deposits	152,606,934	147,006,677

Investment Shares

The issued and paid up share capital of the society was increased during the year from Shs.2,744,587,752 to Shs.3,043,032,733

Dividends and Interest

The directors have recommended payment of 9% (2016: 7%) as dividend on investment shares and paid 4.5% (2016: 4.5%) interest on Sacco deposits.

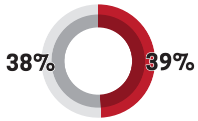
Board of Directors

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

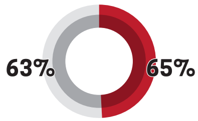
BY ORDER OF THE BOARD

Signature.. Date...2018

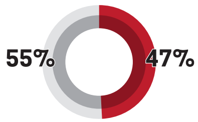
SECRETARY



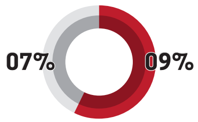
Core Capital Assets



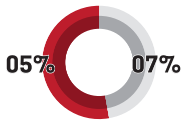
Total Deposits



Total Expenses/Revenue



Member Interest Rates



Deliquent Loans

2016 **2017**

Financial and Statistical Information

AS AT 31 DECEMBER	**2017** Numbers	**2016** Numbers
Membership	275,708	261,001
Number Of Branches	21	20
Number Of Employees	292	339
	2017 Shs	2016 Shs
Financial		
Total Assets	11,844,330,227	10,726,990,649
Members' Deposits	7,012,527,141	6,455,106,159
Loans and Advance To Members	7,135,826,915	7,454,474,918
Provision for Loan Losses	522,000,770	408,895,736
Financial Assets	1,136,791,472	395,859,751
Total Revenue	1,617,895,426	1,688,758,553
Total Interest Income	1,249,039,283	1,324,477,561
Total Expenses	1,408,772,390	1,265,515,504
Investment Shares	3,043,032,733	2,744,587,752
Statutory Reserve	387,203,200	319,595,731
Appropriation Account	499,588,708	523,885,877
Core Capital	4,571,529,563	4,063,388,912
Institutional Capital	886,791,908	843,481,608
Loan Loss Reserve	86,908,071	66,053,971
Key Ratios:	**2017** Percentages	**2016** Percentages
Capital Adequacy Ratios		
Core Capital/Total Assets	39%	38%
Minimum Ratio	10%	10%
Core Capital/Total Deposits	65%	63%
Minimum Ratio	8%	8%
Institutional Capital/Total Assets	7%	8%
Minimum Ratio	8%	8%
Liquidity Ratio		
Liquid Assets/total Deposits And Short-term Liabilities	34%	33%
Minimum Ratio	15%	15%
Operating Efficiency/loan Quality Ratios		
Total Expenses/Total Revenue	47%	55%
Interest to Members Deposits/Total Revenue	9%	9%
Interest Rate on Members' Deposits	4.5%	5%
Dividend Rate on Members Share Capital	9%	7%
Total Delinquent Loans Provisions/Gross Loan Portfolio	7%	5%

Statement Of Directors' Responsibilities

The Sacco Societies Act No. 14 of 2008 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the society keeps proper accounting records that are sufficient to show and explain the transactions of the society; that disclose, with reasonable accuracy, the financial position of the society and that enable them to prepare financial statements of the society that comply with the International Financial Reporting Standards and the requirements of the Sacco Societies Act. The directors are also responsible for safeguarding the assets of the society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Sacco Societies Act. The 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 2017 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.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on ___________.________________ 2018 and signed on its behalf by:

CHAIRMAN ________________

TREASURER ________________

BOARD MEMBER ________________

Independent Auditors' Report

TO THE MEMBERS OF UNAITAS SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

Opinion

We have audited the financial statements of Unaitas Savings and Credit Co-operative Society Limited (the society) set out on pages 9 to 46, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements give a true and fair view of the society's financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Sacco Societies Act.

Basis for opinion

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

Loan Impairment Provisions

The directors exercise significant judgement in classification of loans and advances to customers into the various credit grades as described in note 22 (b) to the financial statements as well as the level of impairment provisions necessary for each grade of loan which is based on the society's past experience and reference to the regulatory guidelines and industry standards. Because of the significance of these judgements and the quantum of loans and advances, the audit of loan impairment provisions is a key audit matter. Further details of the loans and advances balances and impairment provisions are included in note 7 to the financial statements.

Our audit procedures included testing the model used by the directors in classifying loans and advances into their respective credit grades which included understanding the classification criteria and reviewing this for consistency with the society and industry experience. We tested a sample of loans and advances (including loans that had not been identified by management as impaired) to form our own assessment as to whether and indicators of impairment were present.

For a sample of impaired loans we tested the extraction of data used in the models, the estimation of the future expected cash flows from the members based on historic industry experience including realisation of collateral held which we tested against records of member deposits, security documentation, valuation reports and allowances for depreciation and recalculated the impairment provisions. We further tested the calculation of the loan loss reserve on a portfolio classification basis under the regulations issued by Sacco Societies Regulatory Authority (SASRA).

Information Technology Control Environment

The Society is highly dependent on information systems and controls over access rights to such systems are critical and therefore represent a key audit matter.
We tested the design and implementation of the Society's controls around the information technology environment and operating effectiveness for controls that were critical to databases within the scope of our audit and the financial reporting process. Where our procedures identified deficiencies, we assessed the design and implementation of any controls that mitigated the identified risks and extended the scope of our tests of operating effectiveness of controls and/or substantive audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors and financial and statistical information which we obtained prior to the date of this auditor's report, and board of the directors report, supervisory committee report, sustainability report and corporate social investment report which are expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
When we read the report, 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 IFRSs and the requirements of the Sacco Societies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities For The Audit Of The Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Auditor's responsibilities for the audit of the financial statements (continued) 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner responsible for the audit resulting in this independent auditor's report is
CPA Chaudhry Mohamed Asif - P/No. 2059.
Certified Public Accountants
Nairobi
--------------------------2018
PKF Kenya.

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Profit and Loss Statement

PLUS OTHER COMPREHENSIVE INCOME

	Notes	2017 KShs	2016 KShs
Revenue			
Interest Income:			
Interest On Loans And Advances	2 (A)	1,115,621,222	1,262,991,774
Other Interest Income	2 (B)	133,418,061	61,485,787
Total Interest Income		1,249,039,283	1,324,477,561
Interest Expenses	2 (C)	(152,606,934)	(192,516,108)
Net Interest Income		1,096,432,349	1,131,961,453
Net Fee And Commission Income	2 (D)	358,106,249	351,987,238
Other Operating Income	2 (E)	10,749,894	12,293,754
Impairment Charge On Loan And Advances	3 (A)	(113,105,034)	(183,506,767)
Member Expenses	3 (B)	(35,343,407)	(35,027,408)
Staff Costs	3 (C)	(477,506,005)	(450,624,794)
Other Administrative Expenses	3 (D)	(302,131,972)	(401,623,519)
Other Operating Expenses	3 (E)	(184,826,153)	(145,473,794)
Profit Before Tax		352,375,921	279,986,163
Tax Charge	4	(14,338,575)	(12,156,817)
Profit For The Year		338,037,346	267,829,346
Other Comprehensive Income:			
Items That May Be Reclassified Subsequently To Profit Or Loss:			
- Fair Value Gain/(Loss) On Available For Sale Financial Assets	8	65,697,676	(23,825,130)
- Deferred Tax Thereon	16	(1,918,209)	1,191,257
Total Comprehensive Income		403,735,022	244,004,216
Dividend:			
Proposed Final Dividend For The Year	18 (V)	(273,872,946)	(192,121,143)

The Notes On Pages 14 To 46 Form An Integral Part Of These Financial Statements.

Report Of The Independent Auditor - Pages 5 To 8.

Statement Of Financial Position

AS AT 31 DECEMBER	Notes	2017 KShs	2016 KShs
ASSETS			
Cash and cash equivalents	5	2,375,699,202	2,106,458,952
Receivables and prepayments	6	95,255,155	86,453,659
Tax recoverable	4 (b)	6,861,743	964,271
Loans and advances to members	7	7,135,826,915	7,454,474,918
Financial assets	8	1,136,791,472	395,859,751
Inventories	9	10,897,327	11,633,447
Property and equipment	10	575,806,437	371,526,427
Intangible assets	11	507,191,976	299,619,224
Total assets		11,844,330,227	10,726,990,649
LIABILITIES			
Other payables	12	190,829,454	155,900,003
Retirement benefit obligation	13	28,323,734	11,464,439
Interest due to members	14	27,773,472	29,702,482
Member deposits	15	7,012,527,141	6,455,106,159
Deferred tax	16	13,346,863	11,428,654
		7,272,800,664	6,663,601,737
FINANCED BY			
Investment shares	17	3,043,032,733	2,744,587,752
Statutory reserve	18 (i)	387,203,200	319,595,731
Fair value reserve	18 (ii)	280,923,905	217,144,438
Appropriation account	18 (iii)	499,588,708	523,885,877
Loan loss reserve	18 (iv)	86,908,071	66,053,971
Dividend account		273,872,946	192,121,143
		4,571,529,563	4,063,388,912
Total liabilities and capital		11,844,330,227	10,726,990,649

The financial statements on pages 9 to 46 were approved and authorised for issue by the board of directors on.............................2018 and were signed on its behalf by:

.............................CHAIRMAN

.............................TREASURER

.............................BOARD MEMBER

The notes on pages 14 to 46 form an integral part of these financial statements.

Changes in Equity

STATEMENT OF CASH FLOWS	Notes	2017 Shs	2016 Shs
Cash Flows From Operating Activities			
Interest Income	2 (A)	1,115,621,222	1,262,991,774
Other Interest Income	2 (B)	133,418,061	61,485,787
Net Fee And Commission Income	2 (D)	358,106,249	351,987,238
Other Operating Income	2 (E)	10,749,894	12,293,754
Interest Payments	14	(154,535,944)	(143,445,994)
Payment To Employees And Suppliers		(384,026,726)	(802,507,005)
Net Cash From Operating Activities		1,079,332,756	742,805,554
(Decrease) In Operating Assets			
Loans And Advances To Members	7	(203,352,767)	(437,345,973)
Increase In Operating Liabilities			
Members Savings		557,420,982	1,072,740,589
Net Cash From Operating Activities Before Income Taxes		1,433,400,971	1,378,200,169
Income Tax Paid	4 (B)	(20,236,047)	(10,116,239)
Net Cash From Operating Activities		1,413,164,924	1,368,083,930
Cash Paid For Purchase Of Property And Equipment	10	(246,808,467)	(73,125,237)
Cash Paid For Purchase Of Intangible Assets	11	(228,206,000)	(290,826,126)
Purchase Of Investments And Securities	8	(706,028,858)	(30,000,000)
Proceeds From Disposals Of Property And Equipment		-	2,360,000
Cash Paid On Short Term Bank Deposits (Maturing Over 91 Days)		-	(100,000,000)
Proceeds From Disposals Of Financial Assets	8	30,794,813	96,656,945
Net Cash Used In Investing Activities		(1,150,248,512)	(394,934,418)
Financing Activities			
Proceeds From Shares Issue	18	298,444,981	391,990,034
Repayments Of Borrowings		-	(85,714,280)
Dividend Paid	18 (V)	(192,121,143)	(164,681,840)
Net Cash From Financing Activities		106,323,838	141,593,914
Movement In Cash And Cash Equivalents			
Increase In Cash And Cash Equivalents		369,240,250	1,114,743,426
Cash And Cash Equivalents At Start Of Year		2,006,458,952	891,715,526
Cash And Cash Equivalents As At End Of The Year	5	2,375,699,202	2,006,458,952

The Notes On Pages 14 To 46 Form An Integral Part Of These Financial Statements.

Significant Accounting Policies Notes

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

a) Basis of preparation

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

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

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

Going Concern

The financial performance of the society is set out in the director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the society is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 22. Based on the financial performance and position of the society and its risk management policies, the directors are of the opinion that the society is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

These financial statements comply with the requirements of the Saccos Act. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

New Standards, Amendments And Interpretations Issued But Not Effective

A number of new and revised Standards and Interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements. At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

Amendment to IAS 28 'Investments in Associates and Joint Ventures' (Annual Improvements to IFRSs 2014–2017 Cycle, issued in December 2017) - The amendment, applicable to annual periods beginning on or after 1 January 2018, clarifies that exemption from applying the equity method is available separately for each associate or joint venture at initial recognition.

Amendments to IAS 40 'Transfers of Investment Property' (issued in December 2017) that are effective for annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) that is effective for annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

Amendments issued in June 2017 to IFRS 2 ' Share - based Payment ' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.

Amendments to IFRS 4 titled Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued in September 2017) that are effective for annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial.

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The society will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information.

The adoption of IFRS 9 is expected to result in a reduction in retained earnings as at 1 January 2018 attributable to increases in the allowance for credit losses. The impact of this is currently being determined by the Society.

Classification and measurement: IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model.

These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

Impairment: Overall Comparison of the New Impairment Model and the Current Model IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard.

Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified.

Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the society for other purposes, such as forecasting and budgeting. Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

Measurement of Expected Credit Losses:

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.
The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).
The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.
- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

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

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.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

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.

Definition of Default: IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the society will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have ccurred or when contractual payments are 90 days past due.

IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18).It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.

IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability. The directors expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

The directors expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) Key Sources of Estimation Uncertainty.

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

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

Impairment Losses On Loans And Advances

The society reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the society makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. The directors use estimates based on historical loss experience, industry experience and regulatory guidance and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for non-performing loans and advances. The values of securities are discounted using the International Financial Reporting Standards. International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement' is based on historical experience and other relevant factor.

Fair Value Of Financial Instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Useful Lives Of Property And Equipment And Intangible Assets.
Management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

Retirement Benefit Obligation
Actuarial assumptions are made in valuing future defined benefit obligations and are updated periodically. The principal assumption relates to the discount rate. The discount rate is equal to the yield on government securities which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that this assumption will continue in the future.

d) Revenue Recognition
Interest income
The interest income is reocgnised under the effective interest method. The effective interest is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

Other Income
i) Rental income is accrued by reference to time on a straight line basis over the lease term

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

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

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

Freehold Land and Work In Progress are not Depreciated.

Depreciation is calculated using the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates in use are:

Asset	Rate (%)
Freehold Land	Nil
Buildings	2.5
Machinery And Equipment	12.5
Motor Vehicles	25
Furniture And Fittings	12.5
Leasehold Improvements	10
Computers, Photocopiers And Other Accessories	30
Generators	12.5
Loose Tools	50

The assets' residual values and lives are reviewed, and adjusted if appropriate at each balance sheet date.

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

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, the amount in the revaluation reserve relating to that asset is transferred to retained earnings.

f) Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a over their estimated useful lives of 8 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life.

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

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

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

Available-for-Sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Subsequent to initial recognition, they are carried at fair value with gains or losses are recognised in other comprehensive income.

Interest on available-for-sale securities is calculated using the effective interest method and is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are also recognised in profit or loss as part of other income when the society's right to receive payments is established.

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the society commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the society has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of comprehensive income under administrative expenses when there is objective evidence that the society will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are recognised in profit or loss. For available for sale assets cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss and for available for sale assets in other comprehensive income in the year in which they occur.

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

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

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

Financial Liabilities
The society's financial liabilities which include creditors and accrual and borrowing and grants fall into the following categories:

Financial liabilities measured at amortised cost : These include borrowings, other payables member deposits and other creditor and accruals. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

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

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.
All financial liabilities are classified as current liabilities unless the society has an unconditional

right to defer settlement of the liability for at least 12 months after the reporting date. Financial liabilities are derecognised when, and only when, the society's obligations are discharged, cancelled or expired.

Offsetting Financial Instruments

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

g) Leases

i) Finance Lease

Leases of property and equipment where the society assumes substantially all the benefits and risks of ownership are classified as finance leases. Assets acquired under finance leases are capitalized at the inception of the lease at the lower of their fair values and the estimated present value of the underlying lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rentals obligations, net of finance charges are included in non-current liabilities while the interest element of the finance charge is charged to the profit or loss account over the lease period.

ii) Operating leases

Leases of assets where a significant proportion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the lease period. Prepaid operating lease rentals are recognized as assets and are subsequently amortized over the lease period.

h) Inventories

Inventories consumables and are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) basis and comprises all costs attributable to bringing the inventories to their current location and condition. Net realisable value is the estimate of the value in use in the ordinary course of business.

i) Impairment of non-Financial Assets

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

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

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

j) Retirement Benefit Obligations

The society operates a gratuity scheme for its permanent employees. The plan costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows.

Employee entitlements to gratuity are recognised when they accrue to employees. A gratuity payment of 10% or 15% of the basic annual salary is accrued to employees at the end of each successfully completed year period of service.

The society and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The society's contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate.

k) Taxation

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

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

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

Deferred income tax assets are recognized only to the extent that it is probable that the future taxable Surplus will be available against which temporary differences can be utilized.

l) Cash and cash Equivalents

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

m) Investment shares

Member interest are classified as equity where the entity has an unconditional right to refuse redemption of the members' shares. Provisions in the Act, regulations or the Sacco by-laws impose unconditional prohibitions on the redemption of members' shares.

n) Reserves

Statutory reserve

Transfers are made to the statutory reserve fund at a rate of 20% of net operating surplus after tax in compliance with the provision of section 47 (1& 2) of the Co-operative Societies Act, Cap 490. This reserve is not distributable.

Loan loss reserve

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

Fair value reserve

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

Where a revalue financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss. Gains and losses transferred from equity into statement of comprehensive income during the period are included in other gains and losses. The amounts in this reserve is not distributable.

Appropriation account

This comprises retained earnings and is distributable.

Dividend account

Dividend is recognised as a liability by transferring funds from retained earnings to dividend account. Proposed dividends are disclosed as a separate component of equity. This reserve is distributable.

o) Comparatives

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

NOTES

2. Revenue

	2017 Shs	2016 Shs
a) Interest income on member loans and advances	1,115,621,222	1,262,991,774
b) Other interest income		
Interest income from investments	133,418,061	61,485,787
Total interest income	1,249,039,283	1,324,477,561
c) Interest expenses		
Interest on member deposits	152,606,934	147,006,677
Borrowing costs	-	45,509,431
Total interest expense	152,606,934	192,516,108
Net interest income	1,096,432,349	1,131,961,453
d) Fee and commission income		
Service fee	111,675,965	112,626,602
Appraisal fees	159,605,795	140,589,578
Other fees	63,253,854	76,790,690
Commission (Mpesa, Msacco, ATM)	23,570,635	21,980,368
Total fee and commission income	358,106,249	351,987,238
e) Other operating income		
i) Income from core operating activities		
Sale of bank cards, ATMs and pass books	377,990	120,925
Safe custody	63,825	98,850
	441,815	219,775
ii) Income from non-core operating activities		
Dividend income	9,947,959	10,205,891
Sundry income	360,120	1,538,088
Rent income	-	330,000
	10,308,079	12,073,979
Total other operating income	10,749,894	12,293,754

Profit Before Tax

3. PROFIT BEFORE TAX

	2017 KShs	2016 KShs
The following items have been charged in arriving at profit before tax:		
a) Impairment charge on loans and advances (Note 7)	113,105,034	183,506,767
b) Governance expenses (member related costs)		
Board meetings	20,129,525	19,334,219
Other governance expenses	15,213,882	15,693,189
	35,343,407	35,027,408
c) Staff costs		
Salaries and wages	361,791,123	339,146,615
Defined benefit obligation - current service cost (note 13)	22,598,860	20,566,928
National Social Security Fund	3,969,852	3,472,191
Other staff cost	89,146,170	87,439,060
	477,506,005	450,624,794
d) Other administrative expenses		
Marketing expenses	60,681,265	158,746,847
Security expenses	40,300,281	37,146,681
ICT expenses	46,119,601	49,448,160
Printing and stationery	12,570,711	10,554,174
Audit and supervision	2,648,982	1,544,577
System implementation costs	1,832,968	877,398
Donations and subscriptions	5,361,627	3,984,076
Postages and telephones	2,925,258	2,921,062
Consultancy	11,364,524	28,501,227
Bank charges	6,123,544	12,216,437
M-Banking deposit charges	18,550,394	50,344,936
Legal and professional fees	10,439,209	7,647,531
Strategic review	4,000,841	1,259,372
Fringe benefits tax	1,808,576	4,232,816
Travelling and subsistence	31,224,659	32,198,225
Other provisions	46,179,532	-
	302,131,972	401,623,519
e) Other operating expenses		
Depreciation on property and equipment	42,528,457	41,794,205
Rates and rent	77,174,451	68,466,826
Amortisation of intangible assets	25,273,248	6,849,434
Water, fuel and electricity	14,123,001	9,603,523
Insurance	4,899,579	4,718,008
Repair and maintenance	15,827,417	9,780,849
SASRA levy	5,000,000	4,260,949
	184,826,153	145,473,794

4. a) Tax

	2017 KShs	2016 KShs
Current tax	14,338,575	12,156,817
Tax	14,338,575	12,156,817

The tax on the society's operating profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2017 KShs	2016 KShs
Reconciliation of the expense		
Profit before tax	352,375,921	279,986,163
Tax calculated at a tax rate of 30%	105,712,776	83,995,849
Tax effects of:		
Expenses not deductible for tax purposes	829,447,342	396,647,403
Income not subject to tax	(920,821,544)	(468,486,435)
Tax charge	14,338,575	12,156,817

b) Tax (payable)/recoverable

	2017 KShs	2016 KShs
At start of year	964,271	3,004,849
Income tax expense	(14,338,575)	(12,156,817)
Tax paid	20,236,047	10,116,239
At end of year	6,861,743	964,271

5. Cash and cash equivalents

Cash and cash equivalents at the end of the year comprise:-

	2017 KShs	2016 KShs
Cash in hand	241,770,740	172,344,354
Cash at bank	119,113,524	125,849,982
Short term deposits	2,014,814,938	1,808,264,616
Total	2,375,699,202	2,106,458,952

The weighted average effective interest rate on short-term bank deposits at year-end was 9.48% (2016: 8.67%).

For the purpose of the statement cash flow, the year end cash and cash equivalents comprise the following:

	2017 KShs	2016 KShs
Cash and bank balances	360,884,264	298,194,336
Short term bank deposits maturing within 91 days	2,014,814,938	1,708,264,616
	2,375,699,202	2,006,458,952

Profit Before Tax

5. CASH AND CASH EQUIVALENTS (CONTINUED)

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

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2017 Shs	2016 Shs
Kenya Shilling	2,366,791,059	2,101,015,165
US Dollar	8,908,143	5,443,787
	2,375,699,202	2,106,458,952

6. RECEIVABLES AND PREPAYMENTS

	2017 Shs	2016 Shs
Sundry debtors	107,426,104	63,375,545
Less: provision for impairment	(46,179,532)	-
	61,246,572	63,375,545
Other receivable	34,008,583	23,078,114
	95,255,155	86,453,659
Movement In Impairment Provisions		
At start of year	-	-
Additions	46,179,532	-
At end of year	46,179,532	-

In the opinion of the directors, the carrying amounts of receivables and prepayment approximate to their fair value.

The directors are of the opinion that the society's exposure is limited because the debt is widely held.

The carrying amounts of the society's trade and other receivables are denominated in Kenya Shillings (Shs.)

7. LOANS AND ADVANCES

	2017 Shs	2016 Shs
At the start of the year	7,454,474,918	7,426,024,681
Net increase during the year	203,352,767	437,345,973
Provision for loan losses	(522,000,770)	(408,895,736)
At year end	7,135,826,915	7,454,474,918
Movement in provisions for impairment of loans		
At start of year	408,895,736	225,388,969
Impairment provisions for the year	113,105,034	183,506,767
At end of year	522,000,770	408,895,736

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Loans and Advances

7. LOANS AND ADVANCES (CONTINUED)

The provisions for doubtful debts include the following:-

	Total provision as per statutory regulations	Impairment provision as per IFRS	Statutory loan loss reserve	Annual transfer to statutory loan loss reserve
Year end 31 December 2017				
Loan and advances	608,908,841	522,000,770	86,908,071	20,854,100
Year end 31 December 2016				
Loan and advances	474,949,707	408,895,736	66,053,971	(29,816,088)

	2017 KShs	2016 KShs
Provision as per statutory regulations		
0 Days (Performing - 1%)	-	-
1- 30 Days (Watch -5%)	6,081,434	5,874,839
31 - 180 Days (Substandard- 25%)	110,114,944	51,141,353
181- 360 Days (Doubtful - 50%)	56,547,612	76,201,000
Over 361 Days (Loss - 100%)	436,164,851	341,732,515
	608,908,841	474,949,707
Provision as per IFRS		
91 - 180 Days - past due	30,176,399	25,982,917
181- 360 Days - past due	83,265,953	91,317,037
Over 361 Days - past due	408,558,417	291,595,782
	522,000,770	408,895,736

The society has an insurance policy on normal and watch classes of loans issued by ICEA Lion Life Assurance Company Limited in which there is compensation of insured loan balance in the event of death or total permanent disability of a member.

The society was given authority by The Sacco Societies Regulatory Authority (SASRA) letter reference number SASRA /SS/5/1/VOL. I (75) dated 17 November 2011 the option not to make 1% loan loss provision (general risk allowance) on the performing loans until otherwise advised by the authority. The society has adopted the option of not providing for 1% on the performing loans. In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The society's credit risk arises primarily from trade receivables. The directors are of the opinion that the society's exposure is limited because the debt is widely held.

7. LOANS AND ADVANCES (CONTINUED)

LOANS TO INSIDERS

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

	2017 KShs	2016 KShs
Total loans advanced during the year	151,387,264	288,838,485
Total loans outstanding at the end of the year:		
Loans to key management	139,737,625	206,092,869
Loans to directors	11,483,392	11,143,392
Loans to supervisory committee members	1,006,559	1,204,784
Loans to other employees	360,402,560	262,930,326
Total loans	512,630,136	481,371,371

8. FINANCIAL ASSETS

	2017 KShs	2016 KShs
At start of year	395,859,751	486,341,826
Additions	706,028,858	30,000,000
Disposals	(30,794,813)	(96,656,945)
Fair value gain/(loss)	65,697,676	(23,825,130)
At end of year	1,136,791,472	395,859,751
Available for sale financial assets		
Managed funds	248,491,174	213,181,600
Unit Trusts	506,553,558	31,319,513
Share in Co-op Holdings Limited	162,892,800	134,330,000
Treasury bills	200,000,000	-
Quoted stocks	6,795,457	5,389,035
Kalamka Limited	1,000,000	1,000,000
Kerussu shares	780,000	780,000
Oikocredit shares	341,394	325,311
Share in Co-operative Insurance Society Limited	9,801,389	9,398,592
Kenya National Federation of Cooperatives	10,000	10,000
Kuscco shares	125,700	125,700
TOTAL INVESTMENTS	**1,136,791,472**	**395,859,751**
Managed funds:		
Cash	120,306	608,714
Dividend	183,834	110,300
Corporate float bonds	14,513,500	10,448,082
Fixed deposits	11,856,671	16,312,596
Kenya government bonds	102,716,278	94,155,466
Quoted equities	83,699,232	69,422,088
Treasury bills	35,401,353	22,124,354
	248,491,174	213,181,600

8. Financial assets (continued)

	2017 KShs	2016 KShs
Income from available for sale financial assets	143,366,020	71,691,678

The fair values of financial assets are categorised as follows based on the information set out on accounting policy (a). There were no reclassification between the classes.

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
Year ended 31 December 2017				
Available-for-sale	455,286,631	679,247,747	2,257,094	1,136,791,472
Year ended 31 December 2016				
Available-for-sale	218,570,635	175,048,105	2,241,011	395,859,751

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

Management monitors the quality of financial assets by:

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

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

9. Inventories

	2017 KShs	2016 KShs
Stationery for office use	10,897,327	11,633,447

Insider Loans and Advances

10. PROPERTY AND EQUIPMENT

Year Ended 31 December 2017

	Land Shs	Building Shs	Leasehold Improvements Shs	Machinery & Equipment Shs	Furniture & Fittings Shs	Computers Shs	Generator Shs	Loose Tools Shs	Motor Vehicles Shs	Work in Progress Shs	Total Shs
Cost											
At Start Of Year	6,635,195	114,633,371	249,932,069	107,144,950	37,287,680	78,050,094	19,575,812	5,221,050	17,548,399	-	636,028,619
Additions	-	-	46,900,115	-	2,279,466	3,218,905	2,250,698	756,370	-	191,402,913	246,808,467
At End Of Year	6,635,195	114,633,371	296,832,184	107,144,950	39,567,146	81,268,999	21,826,510	5,977,420	17,548,399	191,402,913	882,837,086
Depreciation											
At Start Of Year	-	32,817,480	75,265,085	47,681,380	14,148,170	64,608,747	10,575,117	4,850,899	14,555,313	-	264,502,191
Charge For The Year	-	2,045,397	22,156,710	7,432,946	3,177,372	4,998,076	1,406,424	563,261	748,272	-	42,528,458
At End Of Year	-	34,862,877	97,421,795	55,114,326	17,325,542	69,606,823	11,981,541	5,414,160	15,303,585	-	307,030,649
Net Book Values	6,635,195	79,770,494	199,410,389	52,030,624	22,241,604	11,662,176	9,844,969	563,260	2,244,814	191,402,913	575,806,437

The work in progress above relates to IT hardware and infrastructure equipment that was not commissioned by the end of the year.

Year ended 31 December 2016

	Land Shs	Building Shs	Leasehold improvements Shs	Machinery & equipment Shs	Furniture & fittings Shs	Computers Shs	Generator Shs	Loose tools Shs	Motor vehicles Shs	Total Shs
Cost										
At start of year	6,635,195	114,633,371	206,961,679	90,962,552	28,909,373	73,474,571	18,885,848	4,892,394	24,632,392	569,987,375
Additions	-	-	-	16,182,398	8,378,307	4,575,523	689,964	328,656	-	73,125,237
Disposal	-	-	-	-	-	-	-	-	(7,083,993)	(7,083,993)
At end of year	6,635,195	114,633,371	249,932,069		37,287,680	78,050,094	19,575,812	5,221,050	17,548,399	636,028,619
Depreciation										
At start of year	-	30,719,637	55,857,643	39,186,585	10,842,526	58,848,170	9,289,304	4,480,748	19,440,545	228,665,156
Charge for the year	-	2,097,843	19,407,443	8,494,796	3,305,644	5,760,577	1,285,814	370,151	997,695	41,719,963
Disposal									(5,882,927)	(5,882,927)
At end of year	-	32,817,480	75,265,085	47,681,380	14,148,170	64,608,747	10,575,117	4,850,899	14,555,313	264,502,192
Net book values	6,635,195	81,815,891	174,666,983	59,463,569	23,139,510	13,441,346	9,000,695	370,151	2,993,086	371,526,427

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

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Intangible Assests

11. INTANGIBLE ASSETS

Year ended 31 December 2017	Software Costs KShs	Work ing Progress KShs	Total KShs
Cost			
At start of year	65,300,145	283,637,210	348,937,355
Additions	63,622,146	169,223,854	232,846,000
Transfer from WIP	4,640,000	(4,640,000)	-
	133,562,291	448,221,064	581,783,355
Amortisation			
At start of year	(49,318,131)	-	(49,318,131)
Amortization charge	(25,273,248)	-	(25,273,248)
At end of year	(74,591,379)	-	(74,591,379)
Net book value	58,970,912	448,221,064	507,191,976

The ongoing capital work-in-progress relates to the cost of a new software which will be used in operations and core banking business unit.

Year ended 31 December 2016	Software costs Shs	Work in Progress Shs	Total Shs
Cost			
At start of year	58,111,229	-	58,111,229
Additions	7,188,916	283,637,210	290,826,126
	65,300,145	-	348,937,355
Amortisation			
At start of year	(42,468,697)	-	(42,468,697)
Amortization charge	(6,849,434)	-	(6,849,434)
At end of year	(49,318,131)	-	(49,318,131)
Net book value	15,982,014	283,637,210	299,619,224

12. OTHER PAYABLES

	2017 KShs	2016 KShs
Insurance premium payable	99,183,711	94,404,965
Deposits	643,595	631,744
Other payables	91,002,148	60,863,294
Total payables	190,829,454	155,900,003

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair value.

The average credit period on purchases from suppliers is 30 days. No interest is charged on trade payables.

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

Retirement Obligation

13. RETIREMENT BENEFIT OBLIGATION

The society operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to either 10% or 15% of the basic annual salary for each successfully completed year of service.

	2017 Shs	2016 KShs
Present value of funded obligation	28,323,734	11,464,439
At the start of the year	11,464,439	24,005,875
Utilised during the year	(5,739,565)	(33,108,364)
Charged to profit or loss	22,598,860	20,566,928
Liability in the statement of financial position	28,323,734	11,464,439
The amounts recognised in profit or loss for the year were as follows:		
Current service cost (included in staff cost)	22,598,860	20,566,928
	2017	2016
Discount rate	10%	11%
Future salary increases	10%	10%
Average number of contracted years	4	4
14. INTEREST DUE TO MEMBERS		
At the start of the year	29,702,482	26,141,799
Provisions for the year	152,606,934	147,006,677
Payments during the year	(154,535,944)	(143,445,994)
At end of year	27,773,472	29,702,482
15. MEMBERS' DEPOSITS		
Savings deposits		
At start of year	3,860,893,985	3,436,243,744
Net additional deposits during the year	435,612,975	424,650,241
Total	4,296,506,960	3,860,893,985
Short term deposits		
At start of year	763,554,154	517,863,085
Net additional deposits during the year	43,007,951	245,691,069
	806,562,104	763,554,154
Non withdrawable		
At start of year	1,830,658,019	1,428,258,742
Net additional deposits during the year	78,800,058	402,399,277
	1,909,458,077	1,830,658,019
Total member savings	7,012,527,141	6,455,106,159

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

Deferred Tax

16. DEFERRED TAX

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%) on temporary differences other than fair value gains on unquoted financial assets which apply a rate of 5% (2016: 5%) as the rate for capital gains tax. The movement on the deferred tax account is as follows:

	2017 KShs	2016 KShs
At start of year	11,428,654	12,619,911
Charge/(credit) to other comprehensive income	1,918,209	(1,191,257)
At end of year	13,346,863	11,428,654

17. INVESTMENT SHARES

	2017 KShs	2016 KShs
Balance brought forward	2,744,587,752	2,352,597,718
Contributions for the year	298,444,981	391,990,034
Total	3,043,032,733	2,744,587,752

18. RESERVES

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

		2017 KShs	2016 KShs
i)	Statutory reserve	387,203,200	319,595,731
ii)	Fair value reserve	280,923,905	217,144,438
iii)	Appropriation account	499,588,708	523,885,877
iv)	Loan loss reserve	86,908,071	66,053,971
v)	Dividends account		

During the year, proposed dividend for 2016 of 7% of investment shares (2015: 7%) amounting to a total of Shs.192,121,143 (2015: Shs. 164,681,840) was paid. The total proposed dividend for the year is 9% of investment shares (2016: 7%) amounting to a total of Shs. 273,872,946 (2016: Shs.192,121,143).

Commitments

19. COMMITMENTS

Contractual commitments for the acquisition of property and equipment

At the reporting date these commitments were as follows:

	2017 KShs	2016 KShs
Information Communication Technology	312,100,000	284,943,877
Property and equipment	458,275,000	-
	770,375,000	284,943,877

Capital commitments represent capital expenditure contracted for as at reporting date and not yet incurred.

Operating lease commitments - as a lessee

	2017 Shs	2016 Shs
Not later than 1 year	33,148,058	35,360,260
Later than 1 year and not later than five years	78,827,892	96,705,885
	111,975,950	132,066,145

20. CONTINGENT LIABILITY

The society is in receipt of tax demands from the Kenya Revenue Authority (KRA) following its audit conducted in the year 2007 covering the period from 2004 to 2005 on income from member advances that are, in the opinion of management, not subject to tax. The matter was heard at the High Court of Kenya which ruled against the society. However the society is in the process of appealing this decision. Based on the work to date on this matter, and legal and professional advice received, management is of the opinion that the society has meritorious defences available and is able to rigorously defend its position including any associated penalties and interest. In the circumstances, it is not possible to reliably quantify the financial impact or predict with certainty the outcome of this pending matter and therefore no provisions have been recognised in these financial statements.

21. RELATED PARTY TRANSACTIONS

i) Insider deposits

Total deposits and savings outstanding at end of year:

	2017 KShs	2016 KShs
Due to key management	37,126,320	33,751,200
Due to directors	3,288,546	3,980,978
Due to supervisory committee members	82,331,791	67,049,827
Due to other employees	59,216,855	47,511,098
Total deposits and savings	181,963,512	152,293,104

ii) Key management personnel remuneration

	2017 KShs	2016 KShs
Short term employee benefits	125,364,967	137,047,523
Post employment benefits	17,371,263	8,753,378
	142,736,229	145,800,901

Refer to Note 8 for loans to insiders.

Risk Management & Objective Policies

Financial Risk Management

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

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

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

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

(a) Market Risk - *Interest Rate Risk*

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

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

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

	2017 Shs	2016 Shs
Effect on profit (increase)	7,675,026	7,923,730

Risk Management Objectives and Policies

Price risk

The society is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The society does not actively trade these investments. The society's investments in equity of other entities are publicly traded and included in the Nairobi

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

Impact on other comprehensive income

Index	2017	2016
	Shs	Shs
NSE	31,673,141	13,776,656

b) Credit risk

Credit risk is the risk of suffering financial loss, should any of the society's member fail to fulfil their contractual obligations to the society. Credit risk arises mainly from member's loans and advances.

The society is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the society's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk committee, which reports to the board of directors and head of each business unit regularly.

i) Credit risk measurement

The Society takes on exposure to credit risk which is the risk of financial loss to the Society if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the society's loans and advances to members and other banks and investment securities.

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

To aid credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends. Expected loss is the long-run average credit loss across a range of typical economic conditions.

It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty society and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

The society' grading systems is based on the basic principles issued by the regulatory authoritySASRA. In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis.

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

- Performing loans, being loans which are well documented and performing according to contractual terms;
- Watch loans, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding;
- Substandard loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding;
- Doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve instalments have remained outstanding; and
- Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding.

ii) Problem Credit Management and Provisioning

Across all its loan portfolios, the Society employs a disciplined approach to impairment allowances evaluation, with prompt identification of problem loans being a key risk management objective. The Society maintains both collective and specific impairment allowances for credit losses, the sum of which is sufficient to reduce the book value of credit assets to their estimated realisable value.

A primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. An account is considered to be delinquent when payment is not received

on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the society follows industry
standards, measuring delinquency as of 1, 30, 180, 360 and above 361 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes. Specific impairment allowances reduce the aggregate carrying value of credit assets where there is specific evidence of deterioration in credit quality. In line with regulatory guidelines, a collective allowance is maintained to cover potential impairment in the existing portfolio that cannot be associated with specific credit. These allowances are reviewed and updated on a regularly basis.

The process used for recognising the impairment provisions is are generally raised at the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral except where the collateral value is typically realised in less than 12 months then the loan impairment is calculated using the forced sale value of the collateral without further discounting. In certain cases involving bankruptcy, fraud and death, the loss recognition process is accelerated.

The society writes off loans and advances net of any related allowances for impairment losses when it determines that the loans are uncollectable and securities unrealisable. This determination is reached after accessing objective evidence or occurrence of significant changes in the borrower or issuer's financial position such that they are no longer able to repay the obligation, or that proceeds from the sale of collateral will not be sufficient to pay back the entire exposure. This is done after exhausting all other means including litigation.

Credit Risk Management

(b) CREDIT RISK (CONTINUED)

Concentration of risks of financial assets with credit risk exposure (continued)

YEAR ENDED 31 DECEMBER 2017	Agri-Biz KShs	SMEs KShs	Group KShs	Staff KShs	Asset Financing KShs	Individuals KShs	Total KShs
Neither past due nor impaired	1,552,275,608	2,194,810,329	173,069,915	436,608,177	561,583,196	1,479,920,617	6,398,267,842
Past due but not impaired	49,787,533	20,429,640	4,541,505	13,093,719	27,608,744	32,394,241	147,855,381
Individually impaired	149,553,584	458,533,311	96,081,514	50,844,413	128,012,964	228,678,675	1,111,704,461
Gross	1,751,616,725	2,673,773,280	273,692,934	500,546,309	717,204,904	1,740,993,533	7,657,827,685
Less: allowance for impairment	(74,039,682)	(216,896,705)	(37,373,606)	(23,748,031)	(57,801,331)	(112,141,415)	(522,000,770)
	1,504,916,489	2,630,672,895	258,590,137	460,512,820	949,815,628	1,527,012,908	7,135,826,915

YEAR ENDED 31 DECEMBER 2016	Agri-Biz KShs	SMEs KShs	Group KShs	Staff KShs	Asset Financing KShs	Individuals KShs	Total KShs
Neither past due nor impaired	1,403,125,242	2,509,852,821	236,079,409	452,522,270	886,419,791	1,420,083,648	6,908,083,182
Past due but not impaired	77,633,808	24,914,851	7,718,998	2,184,496	20,548,777	23,417,519	156,418,449
Individually impaired	126,873,421	96,275,487	133,616,914	144,559,886	176,903,458	120,639,855	798,869,022
Gross	1,607,632,472	2,631,043,159	377,415,321	599,266,652	1,083,872,026	1,564,141,023	7,863,370,653
Less: allowance for impairment	(57,267,885)	(175,701,320)	(42,863,405)	(7,714,421)	(43,126,337)	(82,222,367)	(408,895,735)
Net	1,550,364,587	2,455,341,839	334,551,916	591,552,231	1,040,745,689	1,481,918,656	7,454,474,918

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the society based on the guidelines provided by the SASRA.

Credit Risk Management (cont'd)

YEAR ENDED 31 DECEMBER 2017	Agri-Biz KShs	SMEs KShs	Group KShs	Staff KShs	Asset Financing KShs	Individuals KShs	Total KShs
0 Days (Performing)	1,552,275,608	2,194,810,329	173,069,915	436,608,177	561,583,196	1,479,920,617	6,398,267,842
1- 30 Days (Watch)	49,787,533	20,429,640	4,541,505	13,093,719	27,608,744	32,394,241	147,855,381
31 - 180 Days (Substandard)	19,889,004	343,136,314	8,786,710	9,728,653	38,005,208	57,458,688	477,004,577
181- 360 Days (Doubtful)	7,049,040	33,231,055	6,101,508	24,142,515	23,797,957	37,428,318	131,750,392
Over 361 Days (Loss)	122,615,540	187,165,942	81,193,296	16,973,245	66,209,800	174,643,263	648,801,086
	1,751,616,725	2,778,773,280	273,692,934	500,546,309	717,204,904	1,781,845,127	7,803,679,279

YEAR ENDED 31 DECEMBER 2016	Agri-Biz KShs	SMEs KShs	Group KShs	Staff KShs	Asset Financing KShs	Individuals KShs	Total KShs
0 Days (Performing)	1,403,125,242	2,509,852,821	236,079,409	452,522,270	886,419,791	1,420,083,648	6,908,083,182
1- 30 Days (Watch)	77,633,808	24,914,851	7,718,998	2,184,496	20,548,777	23,417,519	156,418,449
31 - 180 Days (Substandard)	36,196,448	60,522,450	14,203,671	5,722,032	43,919,129	83,372,284	243,936,013
181- 360 Days (Doubtful)	1,783,585	103,518,256	9,049,853	3,247,509	21,870,305	44,306,808	183,776,315
Over 361 Days (Loss)	108,776,497	208,558,102	73,729,519	7,243,813	32,957,240	65,087,168	496,352,340
	1,627,515,581	2,907,366,480	340,781,451	470,920,120	1,005,715,241	1,636,267,427	7,988,566,300

Risk Management Objectives and Policies

Risk management objectives and policies (continued)
(c) Liquidity risk (continued)
(c) Liquidity risk
Cash flow forecasting is performed by the finance department monthly by monitoring the society's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the society does not breach borrowing limits on any of its borrowing facilities.

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

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Year Ended 31 December 2017	**CURRENT TO 1 YEAR** Shs	**01 TO 05 YEARS** Shs	**TOTAL** Shs
Other Payables	190,829,454	-	190,829,454
- Retirement Benefit Obligation	-	28,323,734	28,323,734
- Interest Due To Members	27,773,472	-	27,773,472
- Member Deposits	806,562,104	6,205,965,037	7,012,527,141
	218,602,926	6,234,288,771	7,259,453,801

Year Ended 31 December 2016	**CURRENT TO 1 YEAR** Shs	**01 TO 05 YEARS** Shs	**TOTAL** Shs
- Other Payables	155,900,003	-	155,900,003
- Retirement Benefit Obligation	-	11,464,439	11,464,439
- Interest Due To Members	29,702,482	-	29,702,482
- Member Deposits	763,554,155	5,691,552,004	6,455,106,159
	949,156,640	5,703,016,443	6,652,173,083

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 member's deposit (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising investment shares, reserves and appropriation account). The directors reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In order to maintain the capital structure, the society may adjust the amounts of dividends paid to members or sell assets to reduce debt. The society's overall strategy remain unchanged from 2015. The debt-to-capital ratios at 31 December 2017 and 2016 were as follows:

	2017 KShs	2016 KShs
TOTAL MEMBERS DEPOSITS	7,012,527,141	6,455,106,159
	7,012,527,141	6,455,106,159
TOTAL CASH AND BANK BALANCES	2,375,699,202	2,106,458,952
NET DEBT	4,636,827,939	4,348,647,207
TOTAL EQUITY	4,571,529,563	4,063,388,912
GEARING RATIO	1:1	1.1:1

Externally Imposed Capital Requirements

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

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

THE RATIOS AT 31 DECEMBER 2017 AND 2016 WERE AS FOLLOWS:

	2017 KShs	2016 KShs
A) Core Capital Of Not Less That Shs 10 Million As Per Statement Of Financial Position	4,571,529,563	4,063,388,912
	2017 %	2016 %
B) Core Capital Of Not Less Than 10% Of Total Assets; As Per Statement Of Financial Position	39%	38%

Incorporation

Unaitas Savings and Credit Co-operative Society Limited is registered in Kenya under the Sacco Societies Act as Savings and Credit Co-operative Society and is domiciled in Kenya.

Presentation Currency

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