JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

REGISTRATION NUMBER: CS/21103

REPORT
AND
FINANCIAL STATEMENTS

31 DECEMBER 2019

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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FOR THE YEAR ENDED 31 DECEMBER 2019

OUR VISION

To be the financial solutions provider of choice.

OUR OBJECTIVE

To promote the social and economic well-being of members.

OUR VALUES

Jambora Savings and Credit Co-operative Society Limited in its commitment to realise the vision and objectives upholds the following core values:

- **Mutual Responsibility**
- **Self Help**
- **Equality**
- **Equity**

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

SACCO INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

BOARD OF DIRECTORS

Samuel Kimani	Chairman
Moses Koech	Vice Chairman
Angela Kamuru	Treasurer
Christine Wahome	Secretary
Irene Minoo	Member
Susan Wavinya	Member
Dena Okeyo	Member
Alexander Kasiki	Member
Francis Kimani	Member

REGISTERED OFFICE

Jambora Savings and Credit Co-operative Society Limited
Jamii Bora Towers, Argwings Kodhek Road,
P.O. Box 22741-00400,
Nairobi.

PRINCIPAL BANKERS

Jamii Bora Bank Limited
Koinange Street Branch
P.O. Box 22741 – 00400
Nairobi.

AUDITORS

Warren and Associates
Certified Public Accountants
P.O Box 20655 – 00100
Nairobi

LEGAL ADVISORS

CK & Associates Ltd
The 680 Hotel Building, 4th Floor,
Suite 401, Muindi Mbingu Street.
P.O. Box 56792-00200
Nairobi.

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

WHO WE ARE – Our History
FOR THE YEAR ENDED 31 DECEMBER 2019

Jambora Savings and Credit Co-operative Society Limited (the “Sacco”) was started in 2017 with the objective of providing a mechanism for Jamii Bora Bank employees in Kenya to save and borrow at affordable rates in order to grow the employees' socio-economic needs. The Sacco later expanded to include other stakeholders of the Bank as a need had been identified amongst them. The Sacco currently serves the staff and immediate family members of all Jamii Bora Bank stakeholders, their affiliates and good standing members of the public.

With an initial membership of 150 members in 2017, the Sacco membership has grown exponentially and now boasts over 1,500 members. The Sacco’s head office is currently housed at Jamii Bora Bank Towers on Argwings Kodhek Road, Kilimani.

The Sacco derives its mandate from the Co-operative Societies Act 2004 and its revised Act of 2012, the Sacco Act 2008, and its By-laws. The affairs of the Sacco are directed by the Board of Directors (BOD) elected by members in the Annual General Meeting (AGM).

The core functions of the Sacco are: Savings, Disbursement of Loans and Investment.

The Sacco offers various products through its back-office function. At the back office, long and short-term loan products are issued to members for property acquisition, growth of their businesses, development needs as well as education and emergency needs.

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

SACCO STATISTICAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

Membership	**2019** **No.**	**2018** **No.**
Active	1,187	1,006
Dormant	325	201
Total	**1,512**	**1,207**

FINANCIALS SUMMARY

	KShs	**KShs**
Total assets	28,511,465	18,028,092
Members' deposits	22,151,011	14,151,928
Loans to members	8,541,387	3,613,118
Investments	18,400,000	-
Share capital	2,318,485	1,902,984
Total revenue	2,554,506	1,658,420
Total interest income	1,853,725	822,633
Total expenses	943,687	1,088,974
Cash and Bank	1,570,078	14,414,974
Employees of the Sacco	3	3

The statistical data is extracted from the Sacco statement of comprehensive income and Sacco statement of financial position set out on pages 12 and 13.

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Dear Honourable Members

I am pleased to present the Jambora Sacco Financial Report for the year 2019. The Report has been prepared for the period of January 1, 2019 to December 31, 2019 and covers the business activities of the Sacco.

This Financial Report is our accountability statement to our Esteemed Membership, Partners and Key stakeholders. It provides a balanced and comprehensive view of the Sacco's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed in the year 2019, and therefore a critical measure of the trajectory the Sacco is taking.

2019 Economic Environment

The Kenyan shilling (KShs) remained resilient in 2019 to close the year at KShs. 101.3 to the dollar on the back of a narrowing current account deficit. The deficit narrowed to an estimated 4.6 percent of GDP in 2019, from 5.0 percent in 2018 mainly due to lower imports of SGR-related equipment, resilient diaspora remittances and strong receipts from transport and tourism services. Foreign exchange reserves stood at USD 8,475 million an equivalent of 5.2 months of import cover. Private sector credit grew by 7.1% in the 12 months to December 2019. This was observed mainly in the manufacturing, trade, transport and communication, and consumer durable sectors. Public debt in Kenya grew by 14.7% year on year to KShs. 6.05 trillion driven by 14.1% growth in external debt, while domestic debt grew 15.4%. External debts accounted for at least 51.4% of the total debt while domestic debt stood at 48.6%. The government increased the public debt cap to KShs. 9 trillion in October 2019 from the previous cap of 50% of GDP providing room for more borrowing.

Real GDP is estimated to have expanded by 5.7% in 2019, a slight decrease from the 5.8% growth recorded in 2018. Growth was supported by, among others, expansion in household consumption and agriculture as well as investments in information technology, finance, insurance, transport and storage sectors. Overall inflation in 2019 averaged 5.2% compared to 4.7% in 2018. The increase was majorly due to higher food prices occasioned by the delay in onset of the long rains. Food inflation in 2019 averaged 2.5% compared to 0.60% during the previous year. Inflation is projected to average 5.8% in 2020 which is well within the target range of between 2.5% and 7.5%. This projection is driven by expected increase in fuel and food prices. International trade and geo-political tensions remain a key risk to performance of the domestic economy.

Jambora Sacco Performance in 2019

I write this with a sense of hope as I look at what we have been able to achieve over the past year as a result of the immeasurable support which we have received from you, our devoted members, as well as stakeholders made up among them, our regulators and partners. In our review of our 2019 performance, we see an institution that is on a growth trajectory. Jambora Sacco made moderate strides in driving growth in its business and onboard more members within the year. Nonetheless, the year came with its fair share of challenges, some of which have permeated into 2020. Geopolitical uncertainties and varying macro-economic headwinds created tougher financial market conditions within our country. However, exceptional as the year was, the business remained resilient. The Sacco continued to deepen and broaden its relationships with stakeholders through enhanced customer experience and improved shareholder value, effectively sustaining the Sacco on a path of growth and profitability.

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED

In the year under review, our loan portfolio grew by 136.3% from KShs 3,613,118 in 2018 to KShs 8,541,387 in 2019. The Member deposits have maintained a growth trajectory, registering a 57% growth from KShs 14.1 million in 2018 to KShs 22.1 million in 2019 signifying a growing savings culture within the membership. Growth in Share Capital grew by only 21% expanding our equity base from KShs 1,902,984 to KShs 2,318,485. We encourage our members to continue investing their savings in share capital so as to earn even more dividends at the end of every financial year. Our Member numbers registered a slight growth from 1,201 in 2018 to 1,512 in 2019. This mainly being a result of the depressed Kenyan economy as a result of prolonged elections in 2017 and a sluggish recovery both in 2018 and 2019. In terms of income, as a result of growth of our loan book and membership growth, our total income increased from KShs 1,658,420 in 2018 to KShs 2,554,506 in 2019.

Coming into 2020, the world has grappled with the spread and impact of the COVID-19 virus which has unfortunately cost numerous lives all over the world and will further impact the global economic growth for at least 12 months looking ahead. All these factors combined have affected business across the country with its impact being felt far and wide. While it may be too early to estimate the impact of the current crisis to the performance of the economy and the Sacco, the Board will put in place measures to support our borrowing members with their loan repayments amongst other softer measures. As a Board, we appreciate the dynamic macro and operating environment and it behoves us to steer the Sacco to overcome these in the most pragmatic manner.

Corporate Governance

Jambora Sacco adheres to the highest standards of corporate governance. We continuously review our corporate governance structures in line with existing and emerging regulatory requirements.

Appreciation

We take this opportunity to extend our appreciation to all our Members, Government regulators, specifically the Ministry of Co-operatives and the Commissioner of Co-operatives, our partners within the banking industry and service providers. We are proud to be associated with you, and we welcome all of you to journey together with us as we seek to be the *Financial Provider of Choice* to our Members countrywide.

Thank you and May God bless you all and the entire Jambora Sacco family.

SAMUEL N. KIMANI
JAMBORA SACCO CHAIRMAN

Date: 1st July 2020

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have the pleasure of presenting their report together with the audited financial statements of Jambora Saving and Credit Co-operative Society Limited (the "Sacco") for the year ended 31 December 2019, which discloses the Sacco's state of affairs.

1. **Incorporation**

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

2. **Principal activity**

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

3. **Results**

	2019 KShs	2018 KShs
Surplus before tax	1,610,819	569,446
Tax charge	165,129	-
Surplus for the year	**1,445,690**	**569,446**

4. **Dividend and interest on members' deposits**

   The Board of Directors recommend payment of the first and final dividends of 10% per share (2018 – 10%).

5. **Board of Directors**

   The Directors who held office during the year and to the date of this report are shown on page 2.

6. **Auditors**

   The Sacco's auditors Warren and Associates have indicated willingness to continue in office in accordance with Sacco Societies Act No. 14 of 2008.

BY ORDER OF THE BOARD

Date: 1st July 2020

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2019

The Co-operative Societies Act and Sacco Societies Act No. 14 of 2008 (the "Acts") and Jambora Savings and Credit Co-operative Society By-Laws (the "by-laws") require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Sacco as at the end of the financial year and of its operating results for that year in accordance with International Financial Reporting Standards. It also requires the Directors to ensure that they keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Sacco. The Directors are also responsible for safeguarding the assets of the Sacco.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Sacco Societies Act, No. 14 of 2008.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Sacco as at 31 December 2019 and of its operating results for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act, No. 14 of 2008. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approved by the Board of Directors' on 1st July 2020 and signed on its behalf by:

SAMUEL N. KIMANI
CHAIRMAN

ANGELA KAMURU
TREASURER

CHRISTINE WAHOME
HONORARY SECRETARY

Date: 1st July 2020

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Jambora Savings and Credit Co-operative Society Limited, which comprise the statement of financial position as at 31 December 2019, 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 and other explanatory information as set out on pages 12 to 33.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Jambora Savings and Credit Co-operative Society Limited as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Kenyan Co-operative Societies Act, the Sacco Societies Act No.14 of 2008 and the Sacco By-laws.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Sacco in accordance with the International Ethics Standards Board for accountants' *Code of Ethics for Professional Accountants (IEBSA 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 IEBSA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the included in the *Report and Financial statements* but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Responsibility of the directors for the financial statements

The Directors are responsible for the preparation of and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Sacco Societies Act No. 14 of 2008, 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 Sacco's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Sacco or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacco's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Auditors' responsibilities for the audit of the financial statements – continued

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the business activities of the Sacco to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Sacco's audit. We remain solely responsible for our audit opinion.

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

Report on other legal requirements

As required by the Co-operative Societies Act Cap 490 we report to you that the financial statements are in agreement with the books of account kept by the Sacco and that, based on our audit, nothing has come to our attention that causes us to believe that the Sacco's business has not been conducted:

(i) In accordance with the provisions of the Co-operative Societies Act Cap 490;
(ii) In accordance with the Co-operative Society's objectives, by-laws and any other resolutions made by the Sacco at a general meeting; and,
(iii) The Sacco's statement of financial position and the statement of changes in equity are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Warren Orwa – P/10434

Date: 01 JULY 2020

WARREN & ASSOCIATES
Certified Public Accountants
P.O. Box 9021 - 00100,
NAIROBI

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

SACCO STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs	2018 KShs
Revenue			
Interest income:			
- Interest on loans and advances	6(a)	752,868	112,115
- Other interest income	6(b)	1,100,857	710,518
Total interest income		**1,853,725**	**822,633**
Other operating income	7	700,781	835,787
Salaries and Wages	8(a)	(740,000)	(582,300)
Other administrative expenses	8(b)	(203,687)	(506,674)
Total operating expenses		**(943,687)**	**(1,088,974)**
Operating surplus before tax	**8**	**1,610,819**	**569,446**
Income tax charge	9(b)	(165,129)	-
Profit for the year		**1,445,690**	**569,446**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,445,690**	**569,446**

The notes set out on pages 16 to 33 form an integral part of these financial statements.

SACCO STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 KShs	2018 KShs
ASSETS			
Cash and Bank	10	1,570,078	14,414,974
Investments held in fixed deposits	11	18,400,000	-
Loans to members	12	8,541,387	3,613,118
TOTAL ASSETS		**28,511,465**	**18,028,092**
LIABILITIES AND EQUITY			
Liabilities			
Members' deposits	15	22,151,011	14,151,928
Trade and other payables	16	70,000	55,000
Tax receivable	9(a)	9,070	-
Due to related parties	18	1,720,030	932,151
Total Liabilities		**23,950,111**	**15,139,079**
Equity			
Share capital	13	2,318,485	1,902,984
Retained earnings	14	2,011,020	797,179
Proposed dividend	17	231,849	188,850
Total equity		**4,561,354**	**2,889,013**
TOTAL EQUITY AND LIABILITIES		**28,511,465**	**18,028,092**

The financial statements on pages 12 to 33 were approved and authorised for issue by the Board of Directors on and were signed on its behalf by:

SAMUEL N. KIMANI
CHAIRMAN

ANGELA KAMURU
TREASURER

CHRISTINE WAHOME
HONORARY SECRETARY

The notes set out on pages 16 to 33 form an integral part of these financial statements.

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

SACCO STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KShs	Retained Earnings KShs	Proposed dividend KShs	Total KShs
1 January 2018		178,551	416,583	-	595,134
				-	
Contributions for the year		1,724,433	-		1,724,433
Surplus for the year	14	-	569,446	-	569,446
Proposed dividend		-	(188,850)	188,850	-
31 December 2018		**1,902,984**	**797,179**	**188,850**	**2,889,013**
1 January 2019		1,902,984	797,179	188,850	**2,889,013**
Contributions for the year		415,501	-	(188,850)	**226,651**
Surplus for the year		-	1,445,690	-	**1,445,690**
Proposed dividend		-	(231,849)	231,849	-
31 December 2019		**2,318,485**	**2,011,020**	**231,849**	**4,561,354**

The notes set out on pages 16 to 33 form an integral part of these financial statements.

JAMBORA SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED

SACCO STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
Operating activities	**Note**	**KShs**	**KShs**
Surplus before tax		**1,610,819**	**569,446**
Changes in working capital:			
Other payables	16	15,000	30,000
Balances due to related parties	18	787,879	921,471
Tax paid	9(a)	(156,059)	-
Loans to members	12	(4,928,269)	(3,519,835)
Net cash used in operating activities		**(2,670,630)**	**(1,998,918)**
Investing activities			
Investment in fixed deposits	13	(18,400,000)	1,000
Net cash (used in)/generated from investing activities		**(18,400,000)**	**1,000**
Financing activities			
Share capital contributions	21	226,651	1,724,433
Increase in members' savings	24	7,999,083	11,638,778
Net cash generated from financing activities		**8,225,734**	**13,363,211**
Net (decrease)/increase in cash and cash equivalents		**(12,844,896)**	**11,365,293**
Cash and cash equivalents at the start of the year		14,414,974	3,049,681
Cash and cash equivalents at the end of the year	12	**1,570,078**	**14,414,974**

The notes set out on pages 16 to 33 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY

Jambora Savings & Credit Co-operative Society Limited **(Registration Number CS/21103)** is registered in Kenya and is incorporated under the Co-operative Societies Act, Cap 490 and licensed under the Sacco Societies Act No.14 of 2008.

The address of its registered office is as follows:

Jambora Savings and Credit Co-operative Society Limited
Jamii Bora Bank Towers, Argwings Kodhek Road,
P.O. Box 22741-00400,
Nairobi.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

For Co-operative Societies Act reporting purposes, the balance sheet is represented by Statement of Financial Position and the income and expenditure account by the Statement of Profit or Loss and Other Comprehensive Income, in these financial statements.

The financial statements are prepared under the historical cost basis except for fair valuation of certain assets.

(b) Going concern

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

(c) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from the estimates.

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

(d) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

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

(i) Interest

Interest income and expense for all interest bearing instruments are recognised in profit or loss as it accrues, taking into account the effective interest rate of the asset or an applicable floating rate. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income

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

This income comprises of loan appraisal and processing fees charged on advances.

(iii) Dividend income

Dividend income is recognised when the shareholder’s right to receive payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments

Classification and measurement, de-recognition, and impairment of financial instruments

(i) Classification

The Sacco classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and Interest (SPPI) on the principal amount outstanding.

The Sacco recognises cash and balances with banks and loans and advances to customers and other assets at amortised cost.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Sacco may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. All equity instruments held by the entity have been recognise at FVOCI

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Sacco may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company does not have financial assets classified at FVTPL.

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

Classification and measurement, de-recognition, and impairment of financial instruments - continued

Assessment of whether contractual cash flows are solely payments of principal and Interest (SSPI)

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity applies the FVOCI election.

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of Interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

Non-recourse loans

In some cases, loans made by the Sacco that are secured by collateral of the borrower limit the Sacco’s claim to cash flows of the underlying collateral (non-recourse loans). The Sacco applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Sacco typically considers the following information when making this judgement:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

Classification and measurement, de-recognition, and impairment of financial instruments - continued

Non-recourse loans – continued

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Sacco's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Sacco will benefit from any upside from the underlying assets.

De minimis

A contractual cash flow characteristic does not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows.

To make this determination, the Sacco considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Sacco's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Sacco's stated objective for managing the financial assets is achieved and how cash flows are realised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

Classification and measurement, de-recognition, and impairment of financial instruments - continued

Non-recourse loans – continued

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

The Sacco's financial assets are all held in held within a business model whose objective is to hold assets to collect contractual cash flows.

Reclassification

The Sacco only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Sacco's senior management as a result of external or internal changes.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, although under IAS 39 fair value changes of liabilities designated under the fair value option were recognised in profit and loss, under IFRS 9, fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in credit risk of the liability is presented in OCI and;
- the remaining amount of change in fair value is presented in profit or loss.

The Sacco classifies all financial liabilities as subsequently measured at amortised cost.

(ii) Derecognition and contract modification

The Sacco derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Sacco will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

The Sacco derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

Classification and measurement, de-recognition, and impairment of financial instruments - continued

(iii) Write-off

The Sacco directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Sacco has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Sacco’s trading activity.

(v) Impairment

IFRS 9 replaced the previous ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model.

No impairment loss is recognised on equity investments.

The Sacco recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Sacco recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below and in note 4(a):

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

Classification and measurement, de-recognition, and impairment of financial instruments – continued

(v) Impairment – continued

Measurement of ECLs – continued

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Sacco expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

(c) Identification and measurement of impairment of financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Identification and measurement of impairment of financial assets (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Sacco on terms that the Sacco would not otherwise consider, indications that a borrower or issuer will enter Sacco bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In assessing collective impairment the Sacco uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

(d) Impairment for non-financial assets

The carrying amounts of the Sacco's non-financial assets, other than deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense

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

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

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

Deferred tax is calculated on the basis of the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

(f) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Banks available to finance the Sacco’s day-to-day operations.

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

(g) Related parties

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

(h) Contingent liabilities

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

(i) Fiduciary activities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Comparatives

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

(k) New standards and interpretations

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

There were no new standards, amendments and interpretations adopted during the year that had a significant impact on the financial statements of the Sacco.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these financial statements.

The Sacco does not plan to adopt these standards early. These are summarised below;

— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— Definition of material (Amendments to IAS 1 and IAS 8)	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— IFRS 17 Insurance contracts	1 January 2021
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

4. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk
(b) Liquidity risk
(c) Market risks
(d) Operational risks.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework
The Directors have overall responsibility for the establishment and oversight of the Sacco's risk management framework.

The Sacco's risk management policies are established to identify and analyse the risks faced by the Sacco, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Sacco, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Sacco if a customer/member or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Sacco's loans and advances to customers and other Sacco's and investment securities. For risk management reporting purposes, the Sacco considers and consolidates all elements of credit risk exposure.

The amount that best represents the Sacco maximum exposure to the credit risk as at 31 December is made up as follows:

Loans and advances to customers	**2019**	**2018**
Loans to members	8,541,387	3,613,118

(i) Other financial assets

	2019	**2018**
Cash and cash equivalents	1,570,078	14,414,974
Investment in fixed deposits	18,400,000	-
	19,970,078	**14,414,974**

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

The table below provides a contractual maturity analysis of the Society's financial liabilities:

31 December 2019	On demand KShs	Due within 3 months KShs	Due between 3-12 months KShs	Due between 1-5 years KShs	Total KShs
Liabilities					
Customer deposits	-	22,151,011	-	-	**22,151,011**
Due to related parties	-	-	1,720,030	-	**1,720,030**
Other liabilities	70,000	-	-	**-**	**70,000**
Total liabilities	**70,000**	**22,151,011**	**1,720,030**	**-**	**23,941,041**

31 December 2018	On demand KShs	Due within 3 months KShs	Due between 3-12 months KShs	Due between 1-5 years KShs	Total KShs
Liabilities					
Customer deposits	-	14,151,928	-	**-**	**14,151,928**
Due to related parties	-	-	932,151	-	**932,151**
Other liabilities	55,000	-	-	**-**	**55,000**
Total liabilities	**55,000**	**14,151,928**	**932,151**	**-**	**15,139,079**

Management of liquidity risk

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

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

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Sacco's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 10 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Sacco's overall exposure to interest rate sensitivities included in the Sacco's ALM framework and its impact in the Sacco's profit or loss by business.

Sensitivity analysis on interest rates

An increase of 1 percentage point in interest rates for the period would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2018.

Effect in Kenya shillings thousands	**Profit or loss/equity**	
	2019	**2018**
	KShs	**KShs**
Interest income	18,537	8,226
Interest expense	-	-
Net change in interest	**18,537**	**8,226**

A decrease of 1 percentage point in interest rates for the period would have had an equal but opposite effect on the profit and loss, on the basis that all other variables remain constant.

Currency risk

Foreign exchange risk arises from future investment transactions and recognized assets and liabilities. The Sacco's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. The Sacco is not exposed to currency risk through transactions in foreign currencies since it has not transacted in foreign currencies during the year (2018 – Nil).

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Financial assets and liabilities and their fair values

(i) Measurement of fair values

Cash and cash equivalents

The fair value of cash and cash equivalents approximates their carrying amount.

Loans to members

Loans to Members are net of provisions for impairment. The estimated fair value of loans represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans re-price within 12 months and hence the carrying amount is a good proxy of the fair value.

Members' deposits and provision for interest on members' deposits

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

5. CAPITAL RISK MANAGEMENT

The Sacco maintains an efficient capital structure from a combination of shareholders' funds and borrowings, consistent with the Sacco's risk profile and the regulatory and market requirements of its business.

The Sacco's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the Sacco's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing the Sacco's products commensurately with the level of risk.

The capital structure of the Sacco consists of net debt calculated as total debt (as shown in the statement of financial position) less the cash and cash equivalents and equity (comprising issued share capital, reserves and retained earnings). The Board of Directors reviews the capital structure on semi-annual basis. As part of this review, the Board considers the cost of capital and risks associated with each class of capital.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

6. INTEREST INCOME

	2019 KShs	2018 KShs
(a) Interest income on loans and advances	**752,868**	**112,115**
(b) Other interest income	**1,100,857**	**710,518**

7. OTHER OPERATING INCOME

Membership fees	263,700	613,350
Loan processing fees	437,081	222,437
	700,781	**835,787**

8. OPERATING SURPLUS BEFORE TAX

The following items have been charged in arriving at net operating surplus:

(a) Employee benefits

	2019 KShs	2018 KShs
Salaries and wages	740,000	580,500
NSSF	-	1,800
	740,000	**582,300**

(b) Other administrative expenses

SMS charges	-	322,174
Commissions paid	-	7,600
Travel expenses	-	1,180
Bank charges	26,737	18,480
Stationeries	51,620	88,740
Audit fees	70,000	30,000
Other expenses	55,330	38,500
	203,687	**506,674**

9. TAX

(a) Statement of financial position

	KShs	KShs
At 1 January	-	-
Charge for the year (as per (b) below)	165,129	-
Tax paid during the year	(156,059)	-
Tax liability at 31 December	**9,070**	**-**

(b) Taxable income computation

Interest from fixed deposits	1,100,857	-
Taxable income @50%	550,429	-
Tax thereon @30%	165,129	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

10. CASH AND BANK

The Sacco holds accounts with Jamii Bora Bank Limited. The details of the amounts held at the bank is as below;

	2019 KShs	2018 KShs
Bank balances		
Cash at bank	1,570,078	14,414,974
	1,570,078	**14,414,974**

11. INVESTMENTS HELD IN FIXED DEPOSITS

Fixed deposits with the bank	**18,400,000**	-

12. LOANS TO MEMBERS

(a) Loans to members:

Gross loans and advances	8,541,387	3,613,118
Less: Allowance for bad and doubtful debts	(-)	(-)
Net loans to members	**8,541,387**	**3,613,118**
Comprising:		
Due within one year	5,709,565	1,930,118
Due after one year	2,831,822	1,683,000
	8,541,387	**3,613,118**

The carrying amounts of loans to members that are due within one year approximate to their fair value.

13. SHARE CAPITAL

At 1 January	1,902,984	178,551
Contributions during the year	415,501	1,724,433
At 31 December	**2,318,485**	**1,902,984**

14. RETAINED EARNINGS

Balance brought forward	797,179	416,583
Surplus for the year	1,213,841	380,596
	2,011,020	**797,179**

15. MEMBERS'DEPOSITS

Balance brought forward	14,151,928	2,513,149
Contributions for the year	7,999,083	11,638,779
	22,151,011	**14,151,928**

16. OTHER PAYABLES

	2019 KShs	2018 KShs
Other payables	70,000	55,000
	70,000	**55,000**

17. PROPOSED DIVIDENDS

Proposed final dividend for 2019 – 10% per share	**231,849**	**188,850**

The Board of Directors recommends payment of first and final dividend of 10% per share (2018 – 10%).

18. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Savings are made in the Sacco by directors and the staff. All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	2019 KShs	2018 KShs
At 1 January	932,151	15,800
Net movement in the year	787,879	916,351
As at 31 December	**1,720,030**	**932,151**

19. CONTINGENT LIABILITY

There were no significant contingent liabilities as at 31 December 2019 (31 December 2018 – Nil).

20. EVENTS AFTER THE REPORTING DATE

The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the resultant country's protection measures towards containment of the disease are severely impacting economic activity with global supply chains severely disrupted and global output and demand on the decline. As a result of the pandemic, the global economy is projected to contract by 3% in 2020, much worse than during the 2008–09 financial crisis. These events did not have a significant impact on the financial statements as at 31 December 2019.