

# C/S 1633 Torch Regulated NWDT Sacco Society

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



### **AUDITORS**

**Kalama & Associates**

**Certified Public Accountants**

**P. O. Box 88015 - 80100**

**Mombasa**

**Kenya**

**email [enquiry@kalamaassociates.com](mailto:enquiry@kalamaassociates.com)**

**C/S 1633 Torch Regulated NWD T Sacco Society Ltd.**  
**Report and Financial Statements for the Year Ended 31 Dec 2021**

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C/S 1633 Torch Regulated NWD T Sacco Society Ltd.

**Report and Financial Statements for the Year Ended 31 Dec 2021**

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**Society Information**

The Board of Directors:

**Board Members**

Mr. Wilson Wanjala Wawire	-	Chairman
Mr. Hosea Korir Kibet	-	Vice Chairman
Mr. Robert Kipkemai Koskey	-	Treasurer
Mrs. Diana Ndunge Nthiwa	-	Hon Secretary
Mr. Anthony Ndago Tunje	-	Member
Mr. Arcad Kinusa Mkoji	-	Member
Mr. Allan Odhiambo Ochieng	-	Member

**Supervisory Committee**

Mr. Sylvester Wafula	-	Chairman
Mr. Tolbert Imbuhila	-	Secretary
Mr. Samuel Waititu	-	Member

**Registered Office:**

Torch Regulated NWD T Sacco Society Ltd.

P O Box 90401-80100

**Mombasa**

**Principal Bankers:**

1.ABSA Bank of Kenya  
Nkrumah Branch

2.Co-operative Bank of Kenya Limited  
Changamwe Branch

**Independent Auditors:**

Kalama & Associates  
Certified Public Accountants  
P. O. Box 88015 - 80100

**Mombasa**

**Kenya**

**The Chief Executive Officer**

Mr. Wilfred Mwangi Muthaka

P. O. Box 90401-80100

**Mombasa**

C/S 1633 Torch Regulated NWD T Sacco Society Ltd.

Report and Financial Statements for the Year Ended 31 Dec 2021

Statistical Information As At 31 Dec 2021

	2021	2020
Membership		
Active Members	343	290
Dormant Members	146	224
<b>Total number of members</b>	<b>489</b>	<b>514</b>
<b>Financial</b>	<b>KShs</b>	<b>KShs</b>
Total Assets	299,428,630	266,167,123
Members' deposits	252,591,109	226,572,731
Benovelent Fund	12,343,459	10,168,880
Loans and advances to members	251,624,317	228,996,728
Investments	2,845,940	309,783
Core Capital	15,958,489	6,400,057
Share capital	3,953,150	1,943,000
Institutional Capital	12,005,339	4,457,057
Total Revenue	33,159,343	29,592,056
Total Interest Income	32,544,439	29,194,145
Total expenses	11,266,923	8,308,857
Employees of the Sacco	2	2
<b>Key ratios:</b>		
<b>Capital Adequacy Ratio</b>		
Core Capital/Total Assets	5.33%	2%
Core Capital/Total Deposits	6.32%	3%
Institutional Capital/Total Assets	4.01%	2%
<b>Liquidity Ratio (15%)</b>		
Liquid Assets/Total deposits and Long term liabilities	17.97%	15.59%
<b>Operating Efficiency/Loan quality ratios</b>		
Total Expenses / Total Revenue	34%	28%
Interest on member deposits/Total Revenue	53.99%	76.04%
Interest on member deposits	7%	10%
Dividend rate on members share capital	10%	10%

**Report and Financial Statements for the Year Ended 31 Dec 2021**

**Report of the Board of Directors**

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31 Dec 2021.

**Incorporation**

The Sacco is incorporated in Kenya under the Cooperative Societies Act, Cap 490, and licenced under the Sacco Societies Act no 14 of 2008.

**Principal Activity**

The principal activity of the Society continued to be receiving savings and provision of loans to its membership for thrift and sustenance.

	2021	2020
	KShs	KShs
Results		
Surplus/(deficit) before tax	5,849,175	579,019
Income Tax expense	(377,736)	(271,505)
Retained surplus for the year	5,471,439	307,514
Dividends on members' shares	467,315	224,700
Interest on members' deposits	17,903,588	22,502,549

**Dividend / Interest on Members' Deposits**

The Board of Directors recommend a provision of Interest on Members deposits @ 7 % (2020: 9.1%) . The Board also recommended payment of dividend @10 % (2020, 10% per share).

**The Board of Directors**

The members of the Board of Directors who served during the year and to the date of this report is as listed on page 1.

**Auditors**

Kalama and Associates Auditors, Certified Public Accountant (K) have expressed their willingness to continue in the office, under the terms of section 43(1) of the Sacco Societies Act 2008 and 25(4) of the Co-operative Societies Act, No. 12 of 1997 as Amended, in 2004.

**By order of the Board**



Mrs. Diana Nduge Nthiwa  
Honourable Secretary

20/1/2022

**Statement of Board of Directors' Responsibilities**

The Sacco Societies Act No. 14 of 2008 requires the Board of Directors to prepare financial statements for each 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 operating results for that year in accordance with IFRS. It also requires the Board of Directors to ensure that the Sacco keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Sacco. They are also responsible for safeguarding the assets of the Sacco and ensuring that the business of the Sacco has been conducted in accordance with its objectives, by-laws and any other resolutions made at its Annual General Meeting.

The Board of Directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Co-operative Societies Act. The Board of Directors is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Sacco and of its operating results in accordance with the IFRS. The Board of 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 controls.

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

Approved by the Board of Directors on 20/1/2022 and signed on its behalf by:

  
.....  
**Chairman**

  
.....  
**Treasurer**

  
.....  
**Member of the Board**





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**KALAMA & ASSOCIATES**  
Certified Public Accountants

P O Box 88015-80100

Mombasa

[info@kalamaassociates.com](mailto:info@kalamaassociates.com)

Your ref:

Our ref: KA/Torch/2021

**C/S 1633 Torch Regulated NWD T Sacco Ltd**  
**Report and Financial Statements for the Year Ended 31 Dec 2020**

**Independent Auditor's Report to the Members of Torch Regulated NWD T Sacco Ltd**

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Sacco's financial affairs as at 31 Dec 2021 and of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Co-operative Societies Act Cap 490 and the Sacco Societies Act no 14 of 2008.

We have audited the accompanying financial statements of Torch Regulated NWD T Sacco Ltd, set out on pages 6 to 21 which comprise the Statement of Financial Position as at 31 Dec 2021, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**The Board of Directors' Responsibility for the Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

**Auditor's Responsibility**

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.



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

#### **Key Audit Matters**

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 in these matters.

#### **I. Goodwill**

The Sacco does not recognize goodwill; neither has goodwill valuation arisen in the valuation of any tangible or intangible assets.

#### **II. Revenue Recognition**

This refers to the amount of revenue and profit recognized in the year on Interest in Members Loans and return on investment. Our audit procedure to address the risk of material misstatement relating to revenue recognition which has been considered to be of significant risk include: -

- Detailed analysis of revenue and the timing of its recognition based on expectations derived from our industry knowledge and external market data.

#### **III. Going Concern Assessment**

The Sacco is subject to a number of regulatory capital requirements which are key determinants of the Sacco's ability to continue as a going concern. During the course of our audit, nothing came to our attention to indicate that the Sacco will not remain a going concern for at least the next 12 months from the date of this statement.

#### **IV. Provision for Loan Losses**

The Co-operative Societies Act and the Sacco Societies Act demand that all loan defaults are marked as such until when they are fully recovered. The Sacco makes provisions to counter any un-recoverability on its loan portfolio in accordance with the SASRA rules & regulations. This is shown on Note no. 12.

***The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Leonard L J Kalama- P/N 1018***

  
**KALAMA AND ASSOCIATES,  
CERTIFIED PUBLIC ACCOUNTANTS (K)**





C/S 1633 Torch Regulated NWD T Sacco Society Ltd.

Report and Financial Statements for the Year Ended 31 Dec 2021

Statement of Comprehensive Income for the Year Ended 31 Dec 2021

		2021	2020
	Notes	KShs	KShs
<b>Revenue/Income:</b>			
Interest from Loans Granted to Members	2	32,544,439	29,194,145
Other Interest Income	3	1,903,336	1,849,370
<b>Total Interest Income</b>		<b>34,447,776</b>	<b>31,043,515</b>
Interest expenses	4	(17,946,582)	(22,553,550)
<b>Net Interest Income</b>		<b>16,501,194</b>	<b>8,489,965</b>
Other Operating Income	5	614,904	397,911
Financial Expenses	6a	(3,870,107)	(2,393,318)
Staff Expenses	6b	(3,368,840)	(3,331,154)
Administrative Expenses	6c	(891,557)	(332,829)
Governance Expenses	6d	(2,821,990)	(2,019,800)
Depreciation & Amortisation	6e	(79,629)	(113,756)
Marketing & Promotion Expenses	6f	(234,800)	(118,000)
<b>Net Operating Surplus Before Income Tax</b>	<b>7</b>	<b>5,849,175</b>	<b>579,019</b>
Income Tax Expense	8	(377,736)	(271,505)
<b>Net Surplus / (deficit) for the year after tax Before Appropriation</b>		<b>5,471,439</b>	<b>307,514</b>
<b>Other Comprehensive Income</b>			
Gains on Share value		2,536,157	-
<b>Total Comprehensive Income</b>		<b>8,007,596</b>	<b>307,514</b>

**C/S 1633 Torch Regulated NWD T Sacco Society Ltd.**

**Report and Financial Statements for the Year Ended 31 Dec 2021**

**Statement of Financial Position As At 31 Dec 2021**

		2021	2020
	NOTES	KShs	KShs
<b>ASSETS</b>			
Cash and Cash Equivalents	9	44,500,277	35,885,239
Prepayments and Other Receivables	10	272,295	709,943
Loan and Advances to Members	11	251,624,317	228,996,728
Financial Assets	12	2,845,940	309,783
Property, plant and Equipments	13	185,801	265,430
<b>TOTAL ASSETS</b>		<b>299,428,630</b>	<b>266,167,123</b>
<b>LIABILITIES</b>			
Current Income Tax Payable	8	121,171	271,505
Members' deposits	14	252,591,109	226,572,731
Trade payables and accrued expenses	15	43,500	26,700
Interest on Members deposits	16ii	17,903,587	22,502,550
Dividends and Honorarium Payable	16i	467,315	224,700
Benovelent Fund	17	12,343,459	10,168,880
		<b>283,470,141</b>	<b>259,767,066</b>
<b>Equity</b>			
Share capital	18	3,953,150	1,943,000
Reserves	19	12,005,339	4,457,057
<b>Total Equity</b>		<b>15,958,489</b>	<b>6,400,057</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>299,428,630</b>	<b>266,167,123</b>



The attached explanatory notes 1 to 22 form an integral part of these financial statements.

The financial statements on pages 6 to 21 were authorized for issue by the Board of Directors on 20/1/2022 and signed on its behalf by:-

..... Chairman

..... Board Member

..... Chief Executive Officer

C/S 1633 Torch Regulated NWD T Sacco Society Ltd.

Report and Financial Statements for the Year Ended 31 Dec 2021

Statement of Changes in Equity for the Year Ended 31 Dec 2021

	Investment Shares	Statutory Reserve	General Reserves	Retained Earnings	Total
	Ksh	Ksh	Ksh	Ksh	
<b>As at 1 Jan 2020</b>	982,000	1,210,074	10,948	3,153,221	5,356,243
Surplus for the Year	-	-	-	307,514	307,514
Prior year Adjustment	-	-	-	-	-
Additions during the year	961,000	-	-	-	961,000
Statutory Reserve	-	32,563	-	(32,563)	-
Dividend Provision 2020	-	-	-	(144,700)	(144,700)
Committee Honoraria	-	-	-	(80,000)	(80,000)
<b>As at 31 Dec 2020</b>	1,943,000	1,242,637	10,948	3,203,472	6,400,057
<b>As at 1 Jan 2021</b>	1,943,000	1,242,637	10,948	3,203,472	6,400,057
Surplus for the Year	-	-	-	8,007,596	8,007,596
Prior year Adjustment	-	-	-	8,000	8,000
Additions during the year	2,010,150	-	-	-	2,010,150
Share Revaluation	-	-	-	-	-
Statutory Reserve	-	1,601,519	-	(1,601,519)	-
Dividend Provision 2021	-	-	-	(395,315)	(395,315)
Committee Honoraria	-	-	-	(72,000)	(72,000)
<b>As at 31 Dec 2021</b>	3,953,150	2,844,156	10,948	9,150,234	15,958,488

C/S 1633 Torch Regulated NWD T Sacco Society Ltd.  
Report and Financial Statements for the Year Ended 31 Dec 2021

Statement of Cash Flows for the Period ended 31 Dec 2021

		2021	2020
		KShs	KShs
<b>Cash flows from operating activities</b>			
Interest receipts	2/3	34,447,776	31,043,515
Other income	5	614,904	397,911
Prior Year Adjustment		8,000	-
Interest on Members Deposits		(22,502,550)	(22,827,000)
Payments to employees and suppliers	4/7	(11,187,294)	(7,970,529)
		1,380,836	643,897
<b>Adjustments for:</b>			
Provisions for loan loss	7a	1,618,673	-
<b>Cash flow from operations before working capital changes</b>		2,999,509	643,897
<b>(Increase) / decrease in operating Receivables</b>			
Loans granted to members	11	(179,181,857)	(154,923,511)
Loans repayments	11	154,935,595	141,476,402
Prepayments and other receivables	10	437,648	334,171
		(23,808,614)	(13,112,938)
<b>Increase / (decrease) in operating liabilities</b>			
Deposits from members	14	43,627,639	28,727,643
Deposits refunded to members	14	(17,609,261)	(9,803,660)
Increase in Benevolent fund	17	2,131,585	1,333,592
Increase in payables	15	16,800	(128,141)
		28,166,763	20,129,434
<b>Net cash from operating activities before income taxes</b>		7,357,658	7,660,393
Income tax paid	8	(528,070)	(297,910)
<b>Net cash from operating activities</b>		6,829,588	7,362,483
<b>Cash flow from investing activities</b>			
Purchase of property and equipment	13	-	(322,538)
Payment of honorarium		(80,000)	(72,000)
Dividends Received		-	-
<b>Net cash from investing activities</b>		(80,000)	(394,538)
<b>Cash flow from financing activities</b>			
Share capital contributions	18	2,010,150	961,000
Interest on Members deposits paid			
Dividends paid	16	(144,700)	-
<b>Net cash from financing activities</b>		1,865,450	961,000
<b>Net (decrease )/increase in cash and cash equivalent</b>		8,615,038	7,928,945
Cash and cash equivalent at the beginning of the year		35,885,239	27,956,294
<b>Cash and cash equivalents at the end of the period</b>	9	44,500,277	35,885,239

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**NOTES**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**1.1 Statement of compliance and basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs).

These financial statements are presented in the functional currency, Kenya shillings (KShs) and prepared under the historical cost convention, except as specified below under fair value measurement in accordance with applicable IFRSs. The Sacco prepares its financial statements covering a period of 12 months ending 31st December every financial year.

**1.2 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Sacco and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Sacco assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Sacco has concluded that it is acting as a principal in all of its arrangements. The following specific recognition criteria must also be met before revenue is recognized:-

**1.3 Property, Plant and Equipment**

All property, plant and equipment are initially recorded at cost. Certain classes of property, plant and equipment are subsequently shown at revalued amounts, based on periodic valuations by the independent valuers, less subsequent disposals & impairment. All other property plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Increases in carrying value arising on revaluations are credited to other comprehensive income and accumulated in revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged against the profit or loss. Each year, the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income IAS 16.41 statement) and depreciation based on the assets original cost is transferred to retained earnings.

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

Asset	Rate (%)
Office furniture, & fittings	12.50%
Office equipment	12.50%
Computers & Allied	30.00%
Office safe	10.00%
<b>Amortization</b>	
Intangible assets ( Computer software etc.)	30.00%

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

Gains or losses on disposal of property, plant 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, amount in the revaluation reserve relating to that asset is transferred to retained earnings.

**De-recognition**

The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.



Notes .... Cont'd

#### 1.4 Intangible assets

Software licence costs are stated at historical cost less estimated accumulated amortization and accumulated impairment losses. Amortization is calculated on a reducing balance method to write off the cost of the software to its residual value over the estimated useful life using an annual rate of 30%.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### 1.5 Investments

Unquoted investments held with other institutions are stated at cost. However, when there is a permanent diminution in value of a long term investment, the carrying amount is reduced accordingly. Dividends on investments are recognized when they become due.

#### 1.6 Members Deposits

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

#### 1.7 Leases

##### a) Finance lease

Leases of property, plant and equipment where the Sacco assumes substantially all 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 the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. 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 rental obligations, net of finance charges are in non-current liabilities while the interest element of the charge is charged to the profit and loss over the lease period.

##### b) Operating leases

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

#### 1.8 Financial Instruments

The Sacco classifies its financial instruments into the following categories:

a) Held to maturity investments, which comprise financial assets with fixed or determinable payments and fixed maturity that the Sacco has a positive intention and ability to hold to maturity. Held to maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

b) **Loans and receivables**, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.

c) Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets; such as:-

##### i) Loans and Receivables

##### ii) Held to maturity investments

iii) Financial assets held at fair value through profit or loss. Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available sale equity instruments are recognized in profit and loss when the Sacco's right to receive the dividends is established.

Notes .... Cont'd

*financial assets .... Cont'd*

All financial assets are recognised initially using the trade date accounting which is the date the Sacco commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value for quoted shares is determined using the quoted bid price at the reporting date while that of non-quoted shares is determined using valuation techniques AND/OR Investment in equity shares classified as available-for-sale assets for which there is no active market and whose fair value cannot be reliably measured are carried at cost.

**Impairment of Financial Assets**

The entity assesses at each reporting date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the profit or loss account.

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the profit or loss account as a reclassification adjustment.

**De-recognition**

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

**1.10 Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

**Impairment of Financial Assets**

The Sacco assesses its financial assets other those at fair value through profit or loss (FVTPL) at each reporting date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

For unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale, objective evidence of impairment could include:-

- i) Significant financial difficulty of the issuer or counterparty; or,
- ii) Default or delinquency in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization.

**C/S 1633 Torch Regulated NWD T Sacco Society Ltd.**

**Report and Financial Statements for the Year Ended 31 Dec 2021**

**Notes (Cont.....)**

**20 Collateral ... Cont'd**

b) the terms and conditions relating to its pledge.

When the Sacco holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of the collateral.

**Provision for Honorarium**

A honorarium is a payment made to the Board of Directors who served in a given period as a token of appreciation in accordance with the provisions of the Co-operative Societies Act. The same is provided for after payment of interest rebates.

**Unclaimed dividends, interest and honorarium**

Interest rebates, honorarium and dividends are recommended by the Board of Directors based on the surplus available for the year and approved by the Annual general Meeting .

	2021	2020
	KShs	KShs
<b>2. INTEREST INCOME</b>		
Interest on Loans Granted to Members	32,544,439	29,194,145
	<b>32,544,439</b>	<b>29,194,145</b>
<b>3. OTHER INTEREST INCOME</b>		
Interest on call deposit CIC	549,723	634,660
Interest on Kuscco Fixed Deposit	1,353,614	1,214,710
	1,903,336	1,849,370
<b>TOTAL INTEREST INCOME</b>	<b>34,447,776</b>	<b>31,043,515</b>
<b>4. INTEREST EXPENSE</b>		
Interest on Member's deposits	17,681,378	22,502,550
Interest on Holiday & Education Saving	222,210	-
Benevolent	42,994	51,000
<b>TOTAL INTEREST EXPENSE</b>	<b>17,946,582</b>	<b>22,553,550</b>
<b>5. OTHER OPERATING INCOME</b>		
Dividends From Co-op Bank	332,479	337,812
Dividends From Kuscco	5,342	3,035
Entrance fee	36,500	15,500
Kuscco Risk Management Rebates 2021	207,703	-
Mpesa Commission	32,880	41,564
	<b>614,904</b>	<b>397,911</b>



**C/S 1633 Torch Regulated NWD T Sacco Society Ltd.**  
**Report and Financial Statements for the Year Ended 31 Dec 2021**

Notes (Cont.....)	2021	2020
<b>a) Financial Expenses</b>	<b>KShs</b>	<b>KShs</b>
Bank Charges/ interest charges	61,873	76,860
Kuscco Risk Management	2,102,561	2,093,886
Audit Fees	87,000	22,000
Supervision fee & Recoverable expense	-	2,700
Instalment Tax	-	63,401
Net provision for debtors assets Impairments loses	1,618,673	134,471
	<b>3,870,107</b>	<b>2,393,318</b>
<b>b) Staff Expenses</b>	<b>KShs</b>	<b>KShs</b>
Salaries and wages	2,793,696	2,684,186
Medical scheme & Life Insurance	346,016	579,968
Staff Business Travel & Accomodation	125,468	-
Staff education	103,660	67,000
	<b>3,368,840</b>	<b>3,331,154</b>
<b>c) Administrative Expenses</b>		
Repairs and Maintenance Computers	126,880	126,020
Kuscco affiliation fee	22,000	24,000
Telephone & postage	50,200	57,294
National Industrial Training Authority	7,200	7,200
Legal fees	100,721	15,000
Conveyance Fees	-	2,000
Printing & Stationery	86,216	95,533
Policies Review	260,000	-
License	54,000	-
System Upgrade	162,400	-
Office Sundry Expenses	21,940	5,782
	<b>891,557</b>	<b>332,829</b>
<b>Total Operating and Administrative Expenses</b>	<b>4,260,397</b>	<b>3,663,983</b>
<b>d) Governance Expenses</b>		
BOD & Supervisory sitting allowance & Taxes	920,090	1,007,950
Committee Education	352,700	194,200
Members Education	686,800	-
Bussiness Travel & Accomodation	278,300	262,250
AGM & SGM expenses	584,100	555,400
	<b>2,821,990</b>	<b>2,019,800</b>
<b>e) Depreciation/Amortisation</b>		
Depreciation Expense	79,629	113,756
	<b>79,629</b>	<b>113,756</b>
<b>f) Marketing Expenses</b>		
Corporate Social Responsibility	70,000	70,000
Marketing expense	38,800	-
Public Relations - Members	126,000	48,000
	<b>234,800</b>	<b>118,000</b>
	<b>29,213,504</b>	<b>30,862,407</b>
<b>7. NET OPERATING SURPLUS</b>	<b>5,849,175</b>	<b>579,019</b>

## 21. Capital Risk management

The Sacco 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 Sacco consists of net debt calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising issued capital, reserves and retained earnings). The Board of Directors reviews the capital structure on a regular 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 or adjust the capital structure, the Sacco may adjust the amounts of dividends paid to members or sell assets to reduce debt. The Sacco's overall strategy remains unchanged from 2021.

## 22. Financial risk management objectives

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

### 22.1 Interest rate risk management

The Sacco is not exposed to interest rate risk as it has not borrowed funds at both fixed and floating interest rates. The risk is managed through maintaining an appropriate mix between fixed and floating rate borrowings. The Sacco's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### 22.2 Other price risks

The Sacco is not exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Sacco does not actively trade in these investments.

#### Equity price sensitivity analysis

If equity price had been 10% higher / lower:

- > Net profit for the year ended 31/12/2021, would have been unaffected as the equity investments are classified as available for sale and no investments were disposed of or impaired; and
- > Other equity reserves would not have been unaffected also, as the Sacco does not hold any investments/ shares as available for sale assets.

The Sacco's sensitivity to equity prices has not changed significantly from the prior year.

### 22.3 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Sacco and arises principally from the Sacco's loans and advances to its members. The amounts presented in the statement of financial position are net of impairment for doubtful debts, estimated by the committee based on prior experience and assessment of the current economic environment. The Sacco has adopted a policy (as contained in its by-laws) of only dealing with creditworthy counterparties and obtaining sufficient collateral, guarantors where appropriate, as a means of mitigating the risk of financial loss from defaults. The Sacco also structures the level of credit risk it undertakes by placing limits on amount of risk accepted in relation to one borrower or group of borrowers.

The Sacco does not have any significant credit risk exposure to any single counterparty or any entity of Counterparties having similar characteristics.

### 22.4 Fair value of financial instruments

The Sacco does not classify any of its assets under the fair value measurements. Classification under fair value measurements is using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy had the following levels,

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices (Level 2); and
- c) inputs for the asset or liability, that are not based on observable market data (unobservable inputs) (Level 3).