

LEGAL NOTICE NO.95

THE SACCO SOCIETIES ACT

(No. 14 of 2008)

IN EXERCISE of the powers conferred by section 68 of the Sacco Societies Act No. 14 of 2008, the Minister for Co-operative Development and Marketing makes the following Regulations:—

THE SACCO SOCIETIES (DEPOSIT—TAKING SACCO BUSINESS) REGULATIONS, 2010

PART I—PRELIMINARY

1. These Regulations may be cited as the Sacco Societies Citation. (Deposit-Taking Sacco Business) Regulations, 2010.

2. The purpose of these Regulations is to provide minimum Purpose. operational regulations and prudential standards required of a deposit-taking Sacco Society.

3. In these Regulations, unless the context otherwise requires— Interpretation.

“allowance for loan loss” means an amount set aside in the Statement of financial position (Balance sheet) to recognise probable loan losses so that the true value of the loan portfolio is fairly stated;

“amalgamation” means the consolidation of assets, liabilities and equity of two or more Sacco societies to form a new entity referred to as an amalgamated society;

“Authority” means the Sacco Societies Regulatory Authority;

“board of directors” has the meaning assigned to it under the Cooperative Societies Act, 1997; No.12 of 1997.

“core capital” means the fully paid up members’ shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco Society; No.2 of 2004.

“delinquent loan” means any loan which the principal or interest remain unpaid after the due date;

“equity” means the difference between assets and liabilities, or the total of institutional capital and other capital accounts;

foreclosed assets” means real estate and assets of material value which are transferred to the Sacco Society because of non-repayment of a loan;

“full and fair disclosure” means the level of disclosure which a prudent person would provide to a member of a Sacco, to the Authority, or, at the discretion of the board of directors, to creditors, to inform them of the financial condition and the results of operations of the Sacco;

“illiquid assets” are assets that cannot be readily converted into cash due to the nature of the asset or the condition of the market;

“institutional capital” means disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco Society;

“immediate family member” means a spouse or other family member living in the same household or under the direct influence of an officer, member or employee;

“non-earning assets” are those assets that do not generate income;

“off balance sheet items” means items not shown on the balance sheet but which constitute a risk to the Sacco Society;

“officer” means a director or any other person by whatever name or title called or described, who carries out or is empowered to carry out functions relating to the overall direction of a deposit-taking Sacco Society or takes part in the general management thereof;

“ordinary men of business” shall have the meaning assigned to it under the Co-operative Societies Act, 1997;

“originating Sacco Society” means the Sacco originating the loan participation when one or more other Sacco societies partner on a loan or multiple loans;

“provision for loan losses” means an expense in the income statement to reflect an increase in the probability of losses due to uncollected loans;

“savings” means deposits payable on demand;

“statutory management” means the procedure whereby the Authority takes immediate possession and control of a Sacco Society’s business due to unsafe and unsound practices;

“supplementary capital” means general provisions which are held

against future and presently unidentified losses that are freely available to meet losses which subsequently materialise, twenty five per cent asset revaluation reserves as approved by the Authority, subordinated

debt, hybrid capital instruments or such other form of capital as may be determined by the Authority from time to time.

PART II—LICENSING

4. (1) A Sacco Society shall not carry out deposit-taking business without a valid license from the Authority.

Licensing
requirements.

(2) A Sacco Society intending to operate deposit-taking Sacco Society business shall make an application to the Authority for a licence in the manner prescribed in these Regulations and submit the following—

- (a) a completed application for licence together with the “fit and proper test” as set out in Forms 1 & 2 in the First Schedule to these Regulations;
- (b) a certified copy of the Sacco Society’s registration certificate, issued under the Co-operative Societies Act, 1997;
- (c) a verified official notification of the Sacco Society’s registered head office;
- (d) a certified copy of the Sacco Society’s bylaws;
- (e) a three-year business plan and feasibility study of the Sacco Society to be licensed detailing the vision and mission, scope and nature of business operations, projected profitability to achieve the minimum prudential standards, control measures and monitoring procedures;
- (f) a certified extract of minutes of the general meeting resolution authorising the application for deposit taking license;
- (g) the name of the proposed chief executive officer;
- (h) certified copies of financial statements for the preceding three years, where applicable;
- (i) evidence that the Sacco Society has adequate capital; and
- (j) an application fee of three thousand shillings.

No. 12 of 1997.

(3) The Authority, if satisfied that an applicant has fulfilled the requirements in paragraph (2) above, shall issue a letter of intent to the Sacco Society to put the following in place—

- (a) institutional infrastructure, including adequate working space, a banking hall, strong room and safe;

- (b) an information management system (IMS) capable of performing and accounting for all transactions and providing the minimum reports required by the Authority, which at the minimum should be able to provide an audit trail report, adequate security features, integration of the operations, capacity for future expansion, real time and relational data base management; and
- (c) risk management policies and internal control systems.

(4) Upon completion of conditions in paragraph (3) above, the Sacco Society shall notify the Authority to conduct an independent on-site inspection to ascertain compliance within thirty days.

(5) Once the Authority is satisfied that a Sacco Society has complied with conditions in paragraph (3) above, it shall issue a compliance letter allowing the Sacco Society to pay the required licence fees within thirty days.

(6) The Authority shall issue a license to the applicant Sacco Society upon payment of license fee of fifty thousand shillings for head office; and twenty thousand shillings for each branch.

(7) A license issued under these Regulations shall be in Form 3 as set out in the First Schedule to these Regulations.

(8) A license issued under these Regulations shall unless revoked be valid up to the 31st December, of the year in which it is issued and may on expiry be renewed.

5. (1) A Sacco Society shall apply for renewal of a licence at least ninety days before the expiry of its operating licence in respect of its head office and any other place of business.

Renewal of licence.

(2) Where Sacco societies amalgamate, the amalgamated Sacco Society shall be exempt from paying licence fee in the year of amalgamation if the amalgamating Sacco societies had existing licenses.

6. (1) The Authority may revoke the license of a Sacco Society in accordance with section 27 of the Act.

Revocation of a license.

(2) Upon revocation of the licence, the assets, books and records of the Sacco Society shall be preserved by the Authority pending liquidation.

(3) A person who at the time of revocation of a license was an officer of a Sacco Society shall not participate in the affairs of any other Sacco Society without the written approval of the Authority.

(4) A person who violates the provisions of paragraph (3) herein commits an offence and is liable on conviction to a fine not exceeding

one hundred thousand shillings or to imprisonment for a term not exceeding twelve months or to both.

(5) Upon revocation of a license, a deposit-taking Sacco Society shall not convert into a non deposit-taking Sacco Society.

7. A license issued under these Regulations is not transferable or assignable to any other entity.

Transfer or assignment of license.

8. (1) The Authority shall within fourteen days publish in the Kenya gazette particulars of any newly licensed Sacco Society.

Publication of licensed Sacco societies.

(2) At the beginning of each year and not later than the 31st January, the Authority shall publish in at least one newspaper of national circulation particulars of licensed Sacco societies.

PART III—CAPITAL ADEQUACY

9. A Sacco Society shall at all times maintain—

Minimum capital requirements.

- (a) core capital of not less than ten million shillings;
- (b) core capital of not less than ten percent of total assets;
- (c) Institutional capital of not less than eight percent of total assets; and
- (d) core capital of not less than eight percent of total deposits.

10. The Authority may require higher minimum capital ratios for a Sacco Society where the Sacco Society has—

Criteria for higher minimum capital ratios.

- (a) losses resulting in a capital deficiency;
- (b) significant exposure to risk;
- (c) a high, or particularly severe volume of poor quality assets;
- (d) if the Sacco Society is growing rapidly without adequate capitalisation and risk management system among other resource needs;
- (e) if there is a likelihood that the Sacco Society may be adversely affected by the activities or conditions of its associates or subsidiaries; or
- (f) such other criteria as the Authority may prescribe.

11. (1) A Sacco Society shall prepare and submit to the Authority, at the end of every month to be received by the 15th day of the following month, a return on Capital adequacy as set out in Form 1 in the Second Schedule.

Capital return. adequacy

(2) A Sacco Society that fails to comply with this Regulation

shall be liable to such administrative sanctions as may be prescribed by the Authority.

12. Where a Sacco Society fails to meet its capital adequacy requirements, in addition to sanctions provided under section 51 of the Act, the Authority may pursue any or all of the following administrative sanctions against the Sacco Society—

- (a) suspension of lending and investment;
- (b) prohibition from acquiring, through purchase or lease, of any additional land and buildings;
- (c) prohibition from accepting further deposits or other lines of credit; and
- (d) any other action deemed appropriate by the Authority.

PART IV—LIQUIDITY AND ASSET LIABILITY MANAGEMENT

13. (1) The board of directors of the Sacco shall be responsible for formulating, reviewing and adjusting the liquidity policy of the Sacco Societies on an annual basis which shall, at a minimum address the following—

Liquidity and asset liability management.

- (a) the appointment of a person responsible for liquidity management;
- (b) the appointment of a person to access a line of credit for liquidity purposes;
- (c) monitoring of liquidity;
- (d) the minimum and maximum levels for total cash assets;
- (e) the cash holding limit;
- (f) process or methods of monitoring asset and liquidity management; and
- (g) the frequency for analyzing the asset and liquidity position.

(2) A Sacco Society shall maintain fifteen per cent of its savings deposits and short term liabilities in liquid assets.

(3) For purposes of this regulation, liquid assets include—

- (a) notes and coins;
- (b) balances at institutions licensed under the Banking Act after deducting therefrom balances owed to those institutions;

- (c) treasury bills; and bonds traded in the secondary market;

- (d) deposits held at other Sacco societies of a maturity not exceeding ninety days, after deducting therefrom balances owed to those Sacco societies; and
- (e) such other liquid assets as the Authority may specify.

(4) The board of directors of the Sacco shall put in place a contingency plan to handle liquidity crises. The plan should include procedures for making up liquidity shortfalls in emergency situations and back-up liquidity strategy for circumstances in which the normal approach to funding operations are disrupted.

14. (1) A Sacco Society shall calculate the average monthly balance of its deposits and borrowings at the close of business on every Wednesday of each week, except that where the Wednesday falls on a public holiday, the calculation shall be done a day before that Wednesday.

Liquidity statement return.

(2) A Sacco Society shall submit to the Authority a liquidity statement return at the end of every month to be received on or before the 15th day of the following month as set out in Form 2 in the Second Schedule.

(3) The Authority may require such other information necessary to evaluate compliance with liquidity requirements.

(4) A Sacco Society that fails to comply with liquidity regulations shall in addition to penalties prescribed in section 30 (3) of the Act, be liable to administrative sanctions as follows—

- (a) suspension of lending and investing;
- (b) suspension from taking new deposits;
- (c) prohibition from acquisition of additional non core assets;
- (d) prohibition from declaring dividends, paying bonuses, salary incentives and other discretionary compensation to officers of the Sacco Society; and
- (e) prohibition or suspension from activities that the Authority perceives to be contributing to the liquidity strain in the affected Sacco Society.

15. (1) A Sacco Society shall not engage in the following activities—

Prohibited business.

- (a) foreign trade operations;
- (b) trust operations;
- (c) investing in enterprise capital beyond the prescribed limit;
- (d) purchasing or otherwise acquiring any land except as may be

reasonably necessary for the purpose of expanding the Sacco
business beyond the prescribed limits;

- (e) transacting Sacco Society business with non members; and
- (f) such other activity as the Authority may prescribe.

(2) A person who contravenes the provisions of this section commits an offence and is liable on conviction to a fine not exceeding one hundred thousand shillings or to imprisonment for a term not exceeding twelve months or to both.

(3) A Sacco Society that contravenes the provisions of this section is liable to pay on being called upon to do so by the Authority a penalty charge sanction of one hundred thousand shillings.

16. (1) A Sacco Society shall not open a branch or new place of business without the prior written approval of the Authority.

Opening of a branch.

(2) A Sacco Society shall notify the Authority of its intention to open and operate a branch and shall invite the Authority to inspect the premises before commencing operations.

(3) The Authority shall undertake the inspection of the branch premises and examine compliance with the standards and the operational readiness of the Sacco Society for commencing operations.

(4) The Authority shall, if satisfied that all requirements have been fulfilled, grant approval upon payment of the prescribed fee.

17. (1) A Sacco Society shall not open or operate an agency or outlet without the prior written approval of the Authority.

Operating an agency or outlet.

(2) An application for approval to open an agency or outlet shall be accompanied by the following information-

- (a) a duly executed copy of the agency agreement between the parties concerned; and
- (b) the security features and space available for carrying out the deposit-taking Sacco business in Kenya.

(3) If the Authority is satisfied that the applicant fulfils all the requirements, it shall grant an approval for operating an agency or outlet.

(4) A Sacco Society shall not be made an agent of any entity without prior written approval of the Authority.

18. (1) A Sacco Society shall not relocate a place of business without written approval by the Authority.

Relocating of a place of business.

(2) An application for an approval to relocate a place of

business shall be made to the Authority and shall be accompanied by the following information—

-
- (a) the reasons given for the change of location and plan for settlement or transfer of claims and liabilities; and
 - (b) completion of the preparations of the new place of business premises.

19. (1) A person shall not without the written approval of the Authority—

Closing a place of business.

- (a) close or cause to be closed a place of business, in a manner so as to permanently cease operation of business; or
- (b) close temporarily or cause the temporal closure of a place of business.

(2) An application to close a place of business shall be made to the Authority and shall be accompanied by—

- (a) the reasons for such closure; and
- (b) a plan for settlement or transfer of assets and liabilities.

(3) An application for temporary closure of a place of business other than on public holidays and Sundays shall be accompanied by the following information-

- (a) the reasons for closure;
- (b) period of closure; and
- (c) the date at which the place of business shall re-open.

(4) In deciding on the approval to authorize the closure of a place of business, the Authority shall satisfy itself-

- (a) the public interest in the location of the Sacco Society shall not be jeopardized by the closure; and
- (b) alternative financial services provided by the Sacco Society are available in the locality.

(5) The Authority shall consider the application for permanent closure of a place of business and if satisfied, may grant approval.

(6) A Sacco Society granted approval to close its business permanently shall—

- (a) give a notice of the intended closure to the members at least ninety days prior thereto, in at least one newspaper of

basis.

nationwide circulation or through any other method acceptable to the Authority; and

- (b) report the closure to the Authority not later than fourteen days after closure.

20. A person who contravenes the regulations on place of Sanctions. business commits an offence and is liable on conviction to a fine not exceeding one hundred thousand shillings or to imprisonment for a term not exceeding three years or to both and, any administrative sanction the Authority may prescribe.

PART V — SHARES, SAVINGS AND DEPOSITS

21. (1) A Sacco Society shall prescribe a minimum number of shares at a par value for which an individual shall subscribe to become a member. Terms of member shares.

(2) A member shall not pledge shares as collateral or security for a loan granted by the Sacco Society.

(3) A member may transfer shares to other members on leaving membership of a Sacco Society, but the Sacco Society shall not refund shares.

(4) Shares may earn dividends paid from net surplus after required transfers to reserves at the end of a financial year in accordance with the dividend policy of a Sacco Society.

(5) A Sacco Society shall not pay dividends unless it has complied with the prescribed capital adequacy and any other requirements that the Authority may impose.

22. (1) Non-withdrawable deposit accounts shall be operated in accordance with the Sacco Society's bylaws and the amount accumulated in the account may be used as collateral against borrowings and shall be refunded only when a member withdraws from membership and provided the member has fully repaid all his debts and is free from guarantee. Non-withdrawable deposits.

(2) Where a Sacco Society operates non-withdrawable deposit accounts, every member shall contribute on a monthly basis or at such prescribed periods and in such amounts as may be determined by the Sacco Society.

(3) A Sacco Society may refund the amount saved in his non-withdrawable deposit account within sixty days after receiving a written notification from the member.

(4) Non-withdrawable deposits shall attract interest at a rate to be determined by the Sacco Society as dictated by external market forces or internal funding needs.

minimum prescribed terms and conditions of opening, operating and

23. (1) A Sacco Society shall establish a savings policy with Withdraw-able deposits. closing accounts, interest rate calculations and payments, penalties and other charges.

(2) All withdrawable deposits shall attract interest at a rate prescribed in the terms and conditions of the deposit.

(3) Interest on withdrawable deposits shall accrue on a pro-rata basis.

24. A Sacco Society shall submit to the Authority a statement of deposit return on its non-withdrawable and withdrawable deposits in Form 3 set out in the Second Schedule at the end of every month to be received on or before the 15th day of the following month.

25. (1) A Sacco Society shall maintain an account for each of its members through which Shares and deposit transactions with the member shall be recorded.

Record keeping.

(2) Term deposit accounts shall be evidenced by a receipt or statement that clearly states the member's name, the certificate and account number, the date of the deposit, the amount of the deposit, the term of the deposit, the interest rate, and dates of interest payments and penalties for early withdrawal.

26. (1) A Sacco Society shall disclose to its members and potential members, the terms and conditions for operating each account and legal obligations attendant thereto.

Savings disclosure requirements.

(2) An advertisement in respect of the terms and obligations attendant to an account offered by a Sacco shall not be misleading or inaccurate and shall not misrepresent a Sacco Society's account contract, and shall state the following information to the extent applicable, clearly and conspicuously-

- (a) the minimum amount required to open an account and the minimum balance to maintain it;
- (b) the minimum interest bearing balance;
- (c) the interest rate and fees applicable;
- (d) the penalty for early withdrawal, if any; and
- (e) the maturity of a term account.

(3) For a joint account, disclosures made to any one of the members shall be deemed to be made to both members.

27. (1) A Sacco Society shall deem an account as dormant if no transactions have been made therein for a period of six months, and maintain a separate accounting record of all such accounts.

Dormant accounts.

(2) Savings, deposits and other sums due to a member may be deemed abandoned if the member or his nominee has not contacted the Sacco Society in person or in writing within a period of five years, or has otherwise not indicated an interest in the funds.

(3) Where funds have been deemed abandoned, the board of a Sacco Society shall give a ninety days notice to the member or nominee at the last known address of its intention to close the account

and transfer the abandoned monies to the public trustee.

(4) The board of directors may transfer the abandoned funds to a person whose name appears in the society's records as a nominee or beneficiary.

(5) Where the member or nominee cannot be traced, the board of directors may, with approval of the Annual General Meeting,

basis.

transfer the funds to the public trustee, and shall inform the member or other interested party by way of notice of the action taken using the last known address.

PART VI—CREDIT MANAGEMENT

28. (1) Except as otherwise provided, these Regulations shall apply to all credit facilities, including loans, advances and overdrafts to members.

General lending requirements.

(2) A Sacco Society shall have a written credit policy consistent with the relevant provisions of the Act, these Regulations and any other applicable laws, which shall contain the following information—

- (i) loaning procedures and their documentation;
- (ii) requirements for grant of a loan;
- (iii) permissible loan purposes and acceptable types of collateral;
- (iv) loan concentration limits;
- (v) loan types, interest rates, frequency of payments and conditions;
- (vi) maximum loan size per product;
- (vii) where collateral is used as security for lending, maximum loan amounts as a percentage of the values of the same;
- (viii) appraisal of the borrower's ability to repay the loan;
- (ix) terms and conditions for insider lending;
- (x) maximum loan approval levels for each officer and committees; and
- (xi) guaranteeing requirements.

(3) A member may repay a credit facility prior to its maturity in whole or in part on any business day without being charged full-term interest.

(4) Except as otherwise provided, no director or employee of a Sacco Society, or immediate family member of a director or employee shall receive anything of value or other compensation in connection with any loan made by the Sacco Society.

(5) The board of directors of a Sacco Society shall be responsible for ensuring that the written credit policy remains up-to-date and reflect current lending practices.

(6) A Sacco Society shall provide a sixty days' written notice to every member affected by a change in any term disclosed in the loan contract.

(7) A Sacco Society shall provide each borrower, at least once

every six months or on request a statement for each outstanding credit facility that provides adequate detail of each transaction made during the period.

29. A Sacco Society shall disclose at a minimum the following lending terms and legal obligations between the parties as applicable—

- (a) amount to be financed;
- (b) finance charges, including interest rate, fees and any other charges that may be imposed;
- (c) interest computation method (variable, fixed, flat or reducing) and the date interest charges begin to accrue;
- (d) conditions for refinancing of loans;
- (e) frequency of issue of statements; and
- (f) Collateral required to secure the lending.

30. (1) Loan interest rates may be established by the management and shall be approved by the board of directors.

Interest rates, fees and penalties.

(2) A Sacco Society may levy a late charge in connection with collecting a debt arising out of an extension of credit which remains unpaid after its due date.

31. A Sacco Society shall be limited to the interest it recovers from a debtor with respect to a delinquent loan up to the limit not exceeding the amount owing when the loan became delinquent.

Limit on interest recoverable

32. (1) A Sacco Society shall ensure that all loans granted are fully secured;

Security for loans.

(2) A Sacco Society shall ensure that no member is allowed to over-guarantee;

(3) A guarantor shall be adequately informed of the nature of the liability prior to signing an agreement creating guarantor liability;

(4) A Sacco Society shall not grant a loan or credit facility against a member's shares.

33. A Sacco Society may borrow or lend to another Sacco for purposes of providing funding for member loans or to finance temporary liquidity short falls provided —

Inter Sacco borrowings.

- (a) a borrowing Sacco Society shall not exceed the prescribed limit for external borrowings;
- (b) the Sacco Society's board of directors or on its delegated authority shall approve the borrowing or lending to other

Sacco societies;

- (c) the terms and conditions for borrowing or lending shall be evidenced by a signed written agreement between or among the participating Sacco societies to be approved by the Authority;

(d) where a Sacco Society borrows for the purposes of on lending to members, it shall retain a reasonable interest margin between its borrowing and lending rates.

34. (1) A Sacco Society intending to introduce a new loan product shall seek prior approval from the Authority.

Loan product approval.

(2) An application for product approval shall be accompanied by the following information on the planned scope of operations—

(a) the capacity, including availability of qualified or experienced staff to disburse loans;

(b) the projected demand for the product; and,

(c) the market segment that the product targets.

35. (1) A Sacco Society shall not acquire external borrowings in excess of twenty five per cent of its total assets unless the limit has been waived by the Authority.

External borrowing and limits on loans.

(2) An application for such a waiver shall contain a detailed explanation demonstrating the need to raise the limit above twenty five per cent of its assets.

(3) The Authority may grant the waiver request if the proposed borrowing limit is not likely to have any adverse effect on the safety and soundness of the Sacco Society.

(4) A Sacco Society acquiring external borrowing for on-lending to members shall charge interest at least two percentages higher than the rate it is charged in procuring the facility.

(5) A Sacco Society shall not grant to any member or permit to be outstanding any loan such that the aggregate amount in respect of that member at any time exceed ten percent of the Sacco Society's core capital.

36. (1) An officer of a Sacco Society shall not use that position to further his or her personal interest.

Insider lending.

(2) All loans to directors and employees shall be approved or ratified by the board of directors and where the applicants attend board meetings, they shall not be present in the meeting considering their loan application.

(3) The rates, terms and conditions of any loan made to an officer, his immediate family member, or their business associates shall not be in any way more favourable than those offered to other Sacco Society members.

(4) A Sacco Society shall notify the Authority of every approval given pursuant to paragraph (2) above within fourteen days of such

37. (1) Where a Sacco Society holds an asset in satisfaction of a

Foreclosed assets.

debt, disposal of such asset shall be done within one year, failure to

approval.

which the Sacco shall provide for probable loss at twenty five per cent per annum, and where the proceeds from the sale of the asset exceed the amount owing from the member, the excess amount shall be returned to the member after accounting for advertising charges and any other charges related to the disposal of the asset.

(2) A Sacco Society shall dispose of a foreclosed asset in accordance with the charge and where the Charge document specifies disposal through public auction a Sacco Society shall advertise the disposal of the asset in a national newspaper of wide distribution between Monday and Friday, excluding public holidays.

(3) Any decline in the value of the property, as established by subsequent appraisals, shall be made through provisioning for the foreclosed asset.

(4) Assets of material value received by the Sacco Society as partial or full payment for a borrower's indebtedness shall be accounted for at the lower of the outstanding loan balance or the market value on the date the asset is transferred to the foreclosed account.

(5) Any losses due to the loan balance being greater than the market value shall be charged to the allowance for loan losses when the asset is transferred to the foreclosed account.

(6) The Sacco Society shall maintain adequate written documentation which shall provide evidence of the management's efforts to dispose the property within the time frame established in this regulation and include any legitimate offers to buy the asset.

38. (1) When a loan application is rejected, the Sacco Society shall communicate to the applicant in writing the reasons for the rejection within fourteen days.

Credit collection practices.

(2) A Sacco Society shall not levy fees where the only amount delinquent on a member's loan account is attributable to late fee(s) or any other charges assessed on earlier installments or payments made.

(3) A Sacco Society may appoint a debt collector after exhausting the normal debt collection procedures, and a debt collector may not engage in any conduct the natural consequence of which is to harass, oppress, or abuse any person in connection with the collection of a debt, or any of the following—

- (a) use of threat, or violence or other criminal means to physically harm the person, or his reputation or property;
- (b) use of obscene or profane language;

- (c) engaging any person in a conversation on the telephone or in person with the intent to annoy, abuse or harass until they repay the debt;
- (d) any false, deceptive, or misleading representation or means in connection with the collection of any debt, including—

he false representation of the character, amount or legal status of any debt;

- (ii) the false representation or implication that any individual is an attorney or that any communication is from an attorney;
- (iii) the threat to take any action that cannot be legally enforced or which is not intended to be taken; or
- (iv) communicating or threatening to communicate to any person credit information which is known to be false.

(4) A debt collector shall not collect interest, fees, charges or expenses unless they are mentioned in the loan agreement or contract, and shall not collect his fees directly from a debtor.

PART VII —RISK CLASSIFICATION OF ASSETS AND PROVISIONING

39. A Sacco Society shall undertake a review of its credit portfolio at least once every quarter and shall ensure that—

Classification requirements.

- (a) loan granting and lending conforms to the approved credit policy;
- (b) problem accounts are adequately identified and classified in accordance with the classification criteria prescribed in these Regulations; and
- (c) appropriate and adequate level of provisioning for potential loss are made and maintained at all times.

40. (1) One-off loan payment shall be deemed to be delinquent if the total principal balance or interests are not serviced at their due date.

Computing delinquency.

(2) The entire principal balance shall also be deemed delinquent where the missed payment was for the interest only.

41. (1) A Sacco Society shall classify its loan portfolio based on performance vis-a-vis the terms provided in the loan contract.

Basis of classification.

(2) Where loan interest payments are due, loan classification will be based on the defaulted interest payments.

(3) All loans shall be classified into five categories on the basis of the following criteria—

- (a) Performing loans, being loans which are well documented and performing according to contractual terms;
- (b) Watch loans, being loans whose principal or interest have remained un-paid for one day to thirty days or where one installment is outstanding;

- (c) Substandard loan, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty one to one eighty

days or where two to six installments have remained outstanding;

- (d) Doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty one to three hundred and sixty days or where seven to twelve instalments have remained outstanding; and
- (e) Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding.

(4) A restructured loan may be reclassified if a sustained record of performance is maintained for six months or six instalments have been made from the date of the restructuring. Provided no loan shall be restructured more than once in its life cycle.

42. (1) All interest on non performing loans and advances shall be suspended once a loan is classified as substandard, doubtful and loss and shall not be treated as income. Interest in suspense shall be taken into account in computing provisions for non performing loan accounts.

Accrued interest.

(2) At no time shall accrued interest income arising from loans exceed thirty days earnings of the entire loan portfolio.

43. (1) Where a Sacco Society obtains collateral for purposes of protecting itself against probable loan loss, the Sacco Society shall ensure that the collateral is duly charged and adequately insured based on an independent registered valuer's report and revaluation shall be done every three years.

Treatment of collateral.

(2) A Sacco Society shall maintain an up to date register of all securities or collaterals provided for securing loans.

44. (1) A Sacco Society shall assess and provide for loan loss allowance for delinquent loans as follows-

Loan loss allowances.

- (a) one percent for a loan classified as performing.(General Risk);
- (b) five percent for a loan classified as watch;
- (c) twenty-five percent for a loan classified as substandard;
- (d) fifty percent for a loan classified as doubtful; and
- (e) one hundred percent for a loan classified as loss

(2) Without prejudice to the classification sequence for provisioning prescribed in paragraph (1) above, a Sacco Society may provide fully for accounts deemed uncollectible at any time.

45. (1) A Sacco Society shall write-off a loan or part of a loan from its Statement of financial position when it loses control of the contractual rights over the loan or when all or part of the loan is deemed uncollectible or where there is no realistic prospect of recovery. Loan write off.

(2) The circumstances specified in paragraph (1) shall be deemed to have arisen where—

- (a) a court has ruled against the Sacco Society;
- (b) all forms of securities or collateral have been called, realized but proceeds failed to cover the entire facility;
- (c) a Sacco Society is unable to collect or there is no collateral;
- (d) a borrower is adjudged bankrupt; or
- (e) efforts to collect the debt are abandoned for any other reason.

(3) The procedure for write-off shall be detailed in the credit policy and any recovery made from any account previously written-off shall be credited back to the allowance for loan losses account in the financial statement and shall not be recognised as income in the year it is recovered.

46. A Sacco Society shall submit to the Authority a return on the risk classification of assets and provisioning at the end of every quarter to be received on or before the 15th day of the following month as set out in Form 4 in the Second Schedule. Risk classification return.

PART VIII— INVESTMENTS

47. (1) A Sacco Society's board of directors shall be responsible for formulating, reviewing and amending the investment policy that is consistent with the Act, these Regulations and any other applicable laws, which shall at a minimum— Investment policy.

- (a) the purpose and objectives of investment activities;
- (b) the types of investments that can be made;
- (c) the investment characteristics including issuer, maturity and interest rate among others;
- (d) the person who has authority to make investments and the extent of this authority;
- (e) the need for adequate investment diversification and concentration risk management across investment type and or entity;
- (f) the educational background and experience of officers assigned the authority to assess the risk characteristics of investments and investment transactions;

- (g) the contingencies put in place to handle investments purchased prior to commencement of these Regulations and

are outside board policy do not fulfil the requirement of this Part;

- (h) the limitations, specific type, quantity, and maturity of investments; and
- (i) necessary internal controls.

48. (1) A Sacco Society shall not invest in non-earning assets or property and equipment in excess of ten percent of total assets, of which land and buildings shall not exceed five percent unless a waiver to that effect has been obtained from the Authority:

Limits on property, equipment financial assets.

Provided donated assets and foreclosed assets shall be excluded in arriving at this percentage.

(2) The request for such waiver shall include a detailed investment appraisal showing the cost and justification for the investment, including how it will improve members' service and an analysis of expected impact on the profitability and capital adequacy requirements.

(3) A Sacco Society shall be required to dispose of the investment in property acquired for the purpose of future expansion, if the property remains unutilised for two years from the date of acquisition and an extension shall only be granted with prior approval of the Authority.

(4) A Sacco Society shall not make financial investments in non government securities in excess of forty percent of its core capital or five percent of its total deposits liabilities.

(5) For the purposes of these Regulations, financial investment mean investments in government securities, shares and stocks, deposits in institutions licensed under the banking Act, and licensed Sacco societies.

49. (1) A Sacco Society shall make financial investments with the intention of "holding to maturity", and shall not use the portfolio to trade securities for profit, placing the Sacco Society's capital at risk.

Compliance with investment policy.

(2) Each investment shall have a subsidiary ledger detailing the type of investment, amount, interest rate, maturity and parties that approved the investment.

(3) A Sacco Society shall keep all original investment documentation in a fire-proof safe and shall maintain a disaster recovery site.

50. (1) A Sacco Society shall not acquire, sell or lease premises, without the prior written approval of the Authority, to or from the

Restricted investment transactions.

following—

- (a) a member of the board of directors , or an employee or immediate family member of any such individual;

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- (b) businesses in which any of the persons named in paragraph (a) is an officer or, partner or has an interest of greater than ten percent in the entity or partnership; and

(2) All transactions with business associates or family members not specifically prohibited must be fully disclosed, conducted at arm's length and in the best interest of the Sacco Society;

51. A Sacco Society shall submit to the Authority a return on its investments at the end of every quarter to be received on or before the 15th day of the following month as set out in Form 5 in the Second Schedule.

Investments return.

PART IX —FINANCIAL PERFORMANCE REPORTING

52. (1) A Sacco Society shall submit to the Authority by the 15th day of each month a return of the Statement of the income and expenditure and a Statement of financial position showing results of its operations for the preceding month.

Financial return.

(2) A Sacco Society shall as of the 31st March, 30th June, 30th September, 31st December, submit to the Authority financial statements in the prescribed format for the month, the quarter to date and the year to date.

(3) A Sacco Society shall present its accounts and associated descriptions without deviation as set out in Forms 6, 7 & 8 in the Second Schedule.

53. (1) A Sacco Society shall establish an internal audit function which shall be responsible for reviewing and reporting on the adequacy of the internal audit system and the financial matters of the Sacco Society.

Internal auditor.

(2) The person responsible for the internal audit function shall be a fully qualified accountant under the Accountants Act.

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(3) The internal auditor shall report to the Audit committee of the board.

54. (1) A Sacco Society shall recommend three names to the Annual General Meeting which shall select one Auditor to Audit its accounts in accordance with section 45 of the Act.

Appointment of external auditor.

(2) A Sacco Society shall submit to the Authority the selected names of the external Auditor within thirty days after the annual general meeting together with an extract of minutes recording his appointment.

(3) A Sacco Society shall not remove an external auditor in the course of the year of appointment except with prior written approval of the Authority.

(4) A request for removal of an external Auditor shall contain

reasons for the proposed removal and in its consideration of such request the Authority shall obtain a written representation from the external Auditor.

(5) A Sacco Society aggrieved by a decision of the Authority under Regulation 54 may appeal to the Minister within fourteen days, and the decision of the Minister shall be final.

(6) A Sacco Society shall change or rotate its external auditors every three years, except with leave of the Authority upon written request in which case this requirement may be waived.

55. (1) A Sacco Society shall within three months after the end of the financial year submit for approval to the Authority its audited financial statements, before publication and presentation to the Annual General Meeting.

Submission of audited accounts.

(2) The audited financial statements to be submitted to the Authority pursuant to the Act shall be in three copies and shall among other things —

- (a) disclose any material amount written off with a resolution of the general meeting of the Sacco Society accompanied by satisfactory explanation;
- (b) have a signed statement of directors' responsibility;
- (c) the auditor's opinion;
- (d) statistical information;
- (e) cash flow statement;
- (f) statement of changes in equity; and
- (g) Other disclosures as prescribed in these Regulations.

(3) A Sacco Society shall display its audited accounts in accordance with Section 46 (1) of the Act, and in addition may post such statement of comprehensive income covering its activities and any other information prescribed, in both its website and that of the Authority.

(4) A Sacco Society shall hold its Annual General Meeting within four months after the end of the financial year.

56. The duties of the external auditor in relation to the Authority shall be to —

Responsibilities of external auditor to the Authority.

- (a) communicate any evidence of irregularities or illegal acts that have been committed by directors, employees or the Sacco Society itself;
- (b) inform the Authority, if there are grounds to believe that the Sacco Society is insolvent or that there is a significant risk that it may become insolvent;
- (c) report failure by the officers to provide all of the necessary information and documentation to enable the auditor perform audit duties; and

- (d) provide an opinion as to whether the Sacco Society management practices and procedures are sufficient to safeguard members' assets.

57. (1) There shall be an audit committee duly constituted by the board of directors to review the financial conditions of the Sacco Society, its internal controls, performance and findings of the internal auditor and to recommend remedial actions at least once in every three months.

Establishment of the audit committee.

(2) The audit committee shall consist of not more than three members appointed from the board, one of whom shall be conversant with financial and accounting matters:

Responsibilities of the audit committee.

Provided that the chairman of the board of directors shall not be eligible to be appointed as a member of the Audit committee.

(3) The primary responsibility of the audit committee shall include but not be limited to—

- (a) ensuring that internal controls are established and effectively maintained to achieve a Sacco Society's financial reporting objectives;
- (b) reviewing internal controls including the scope of the internal audit program, the internal audit findings, and recommend action to be taken by management;
- (c) reviewing internal audit reports and their overall effectiveness, the scope and depth of audit coverage, reports on internal control and any recommendations and confirm that appropriate action has been taken;
- (d) ensuring that accounting records and financial reports are promptly prepared to accurately reflect operations and results;
- (e) reviewing co-ordination between the internal and external audit functions as well as monitor the external auditor's independence and objectivity taking into consideration relevant professional and regulatory requirements;
- (f) recommending three names of external auditors to the board of directors;
- (g) reviewing with external auditors the scope of their annual audit plan, systems of internal audit reports, assistance given by management to the auditors and any findings and actions taken, and recommend the auditor's remuneration to the board;
- (h) reviewing management reports and reports from the internal and external auditors concerning deviations and weaknesses in accounting and operational controls;
- (i) reviewing the Sacco Society's internal audit plan, with specific reference to the procedures for identifying regulatory risks and controlling their impacts on the Sacco Society, including receiving correspondence from the Authority and the responses from the management;
- (j) monitoring the ethical conduct of the Sacco Society and

considering the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints;

- (k) reviewing any related party transactions that may arise within the Sacco Society;
- (l) ensuring that relevant plans, policies, and control procedures are established and properly administered;
- (m) ensuring that policies and control procedures are sufficient to safeguard against error, carelessness, conflict of interest, self-dealing and fraud;
- (n) investigating members complaints;
- (o) keeping minutes of their work; and
- (p) considering any matter of significance raised at the Annual General Meeting.

(4) The audit committee may delegate any of its functions to a nominee but shall ultimately bear the responsibility.

(5) The Audit Committee shall report to the board of directors on measures taken to implement recommendations and corrections of findings reported.

58. A person who contravenes the provisions of this Part ^{Sanctions.} commits an offence and if convicted is liable to a fine of one hundred thousand shillings or imprisonment for a term not exceeding twelve months or to both.

PART X — GOVERNANCE OF SACCO SOCIETIES

in the members who shall jointly and severally protect, preserve and

59. (1) The supreme authority of a Sacco Society shall be vested ^{Membership responsibility} exercise it in general meetings.

(2) In exercising the responsibilities of the supreme authority, members shall jointly and severally ensure that only credible members are elected to the board of directors.

(3) The board of directors shall consist of elected non executive directors.

60. (1) In the conduct of the affairs of the Sacco Society, the board of directors shall exercise prudence and diligence of "ordinary men of business" and shall be held, jointly and severally liable for any loss occasioned by their actions which are contrary to the Act, these Regulations, rules, bylaws or the direction of any general meeting of the Sacco Society or any other applicable law.

(2) The board of directors shall ensure that the management

Directors' duties and responsibilities.

maintains proper and accurate records that reflect the true and fair position of the Sacco Society's financial condition.

(3) The board of directors shall ensure that the Sacco Society functions effectively and that an adequate and effective internal control system is put in place.

(4) The board of directors shall establish appropriate policies including human resource policy, credit policy, investment policy, savings policy, liquidity policy, information preservation policy, dividend policy and risk management policy.

(5) The board of directors shall meet not more than twelve times in a financial year and not more two months shall lapse between the date of one meeting and the date of the next meeting.

(6) The board of directors shall ensure that the Sacco makes adequate provisions for known and probable losses likely to occur as required by these Regulations.

(7) It shall be the duty of the board of directors to ensure that the Sacco Society maintains a positive image within the industry and the economy as a whole.

(8) The board of directors shall establish such number of board or management committees, including an audit and a credit committee as may be necessary to effectively discharge its functions.

(9) The board of directors shall be responsible to the members for the production of the Annual Audited Accounts which shall be presented at an Annual General Meeting held not later than four months after the end of a financial year.

(10) A director shall attend board meetings regularly and shall automatically cease to hold office if he or she fails to attend three consecutive board meetings without permission or reasonable cause.

61. A member of the board of directors shall not receive remuneration in form of a salary for services rendered to the Sacco Society, but may be reimbursed for necessary expenses incurred in course of discharging lawful duties to the benefit of the Sacco Society.

Director not to be remunerated.

62. A person shall not be permitted to hold the position of a director in more than one Sacco Society licensed under the Act.

Limitation.

63. (1) The board of directors shall be responsible for the appointment and removal of the chief executive officer of a Sacco Society.

Appointment of the chief executive officer.

(2) The board of directors shall report to the Authority, within fifteen days, the appointment, resignation and or removal of the chief executive officer.

64. (1) The chief executive officer shall be responsible to the board of directors for the day- to-day running of the matter of the Sacco, paying attention to—

Responsibilities of the chief executive officer.

- (a) the implementation and adherence to the prescribed policies, procedures and standards;

(b) systems that have been established to facilitate efficient

operations and communication;

- (c) the planning process developed to facilitate achievement of targets and objectives;
- (d) all staff matters, particularly human resource development and training;
- (e) adherence to the established code of conduct; and
- (f) the Act, these Regulations, rules, by laws and any other applicable laws.

(2) The chief executive officer shall ensure that the board of directors is frequently and adequately appraised of the operations of the Sacco Society through presentation of relevant Board papers which shall cover, among other areas—

- (a) monthly, quarterly and annual financial statements, showing current compared with past period actual performance, the budget compared with the actual expenditure, and with explanations for any variances;
- (b) capital structure and adequacy;
- (c) delinquent loan list, and in particular growth in loans, loan losses, recoveries and provisioning;
- (d) Statement of comprehensive income (monthly, quarterly and annual) comparison with budgeted against actual;
- (e) sources and distribution on profile of savings and deposits;
- (f) all insider dealings and non-performing insider loans if any;
- (g) reports on violation of the Act, these Regulations and any other applicable law, and remedial actions taken to comply;
- (h) large risk exposures;
- (i) investment portfolio;
- (j) any regulatory reports, and internal reports; and
- (k) any other relevant areas to the Sacco Society's operations.

65. (1) An officer of a Sacco Society shall comply with governance rules as prescribed by the Ethics Commission for Co-operative Societies established under Public Officer Ethics Act, 2003.

Code of conduct.

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(2) A Sacco Society shall prepare a Code of Conduct in the form set out in the Third Schedule for the approval of the Authority.

(3) An officer who violates a Sacco Society's code of conduct commits an offence and is liable on conviction, to a fine not exceeding

one hundred thousand shillings or to imprisonment for a term not exceeding one year or to both.

PART XI— REGULATION AND SUPERVISION

66. (1) The Authority shall be responsible for supervising Sacco societies to ensure that they comply with the provisions of the Act, these Regulations, their bylaws, policies, procedures and any other applicable law.

Inspection of Sacco societies.

(2) The Authority shall have unlimited access to all premises and records of a Sacco Society.

(3) Without prejudice to the generality of paragraph (2), the Authority may in the supervision of Sacco Societies—

- (a) enter any premises of the Sacco Society or any premises in which it is believed on reasonable grounds that books, records, accounts or documents relating to the Sacco Society's business are kept;
- (b) require any officer, employee or agent of the Sacco Society to produce any of the institution's accounting, financial and non-financial records or documents;
- (c) open or cause to be opened any strong room, safe or other facility in which there are any of the Sacco Society's securities, books, records, accounts or documents;
- (d) examine, make extracts and copy any of the Sacco Society's securities, books, records, accounts or documents.

(4) The Authority may require a Sacco Society to furnish any reports it may deem necessary and in such a form as the Authority may prescribe.

(5) In examining a Sacco Society, the Authority shall satisfy itself with regards to—

- (a) compliance with capital adequacy requirements;
- (b) the composition of assets, liabilities and equity accounts;
- (c) the quality of earning assets;
- (d) financial, operational and business risks; and
- (e) any other matter which in the opinion of the Authority is relevant to the performance of its mandate under the Act, these Regulations and any other applicable law.

(6) If the Authority is dissatisfied with the reports, it may request for additional information from the Sacco Society or make an on-site inspection.

(7) The Authority may, at any time and from time to time cause an on-site inspection to be made by any person authorised by it in writing, of any licensed Sacco Society and of its books, accounts and records.

(8) Where an inspection is made under paragraph 7, the Authority may compile a report which shall draw attention to any breach or non observance of the requirements of the Act or the regulations or any irregularity in the manner of conduct of the business of the Sacco Society.

(9) The Authority shall within thirty days after forwarding a copy of the findings to the Sacco Society, present those findings and a report on corrective actions to a board of directors meeting called specifically for that purpose, and the board of directors shall pass a resolution on the implementation of corrective actions recommended by the inspection and every director present shall sign a Certificate of Awareness to indicate that they have read and understood the contents of the report.

(10) All information obtained in the course of regulating and supervising a Sacco Society shall be treated as confidential and used solely for the purpose of the Act and these Regulations.

(11) The Authority shall after every inspection, compile a report which shall highlight the performance of a Sacco Society versus the set standard.

Enforcement actions.

67. (1) The Authority may use supervisory enforcement actions to provide an outline of specific corrective or remedial measures including appropriate timeframes and goals for achievement of compliance.

(2) The Authority may prescribe any remedial action that it considers appropriate in addressing lapses or violations.

(3) The Authority may consider the use of all or any enforcement actions which it shall communicate to each individual Sacco Society as and when need arises.

(4) Where the Authority has reasonable grounds to believe that an officer of a Sacco Society is engaged or is likely to engage in any act or practice which has occasioned or is likely to occasion a contravention of the provisions of the Act or any regulations or any other law in any manner detrimental to or not in the best interest of its members or of the members of the public, or the survival of the Sacco Society, or has committed an offence, the Authority shall issue administrative directions regarding measures to be complied with or impose such sanctions to be taken against the said officer as it may deem fit as provided for under these Regulations

68. (1) In deciding which administrative action to be taken, the

Administrative sanctions.

Authority shall consider the following—

- (a) the financial condition of the Sacco Society;

- (b) the members' interests;
- (c) the interest of the management and the board of directors in the continuation of the Sacco Society;
- (d) the ability of the management and directors to manage the Sacco Society effectively; and
- (e) the local and macro-economic conditions; and
- (1) the ability of the management and directors to manage the Sacco Society effectively.

(2) The Authority may pursue any or all of the following administrative sanctions against a Sacco Society, its board of directors, or its officers—

- (a) prohibition from declaring or paying dividends;
- (b) prohibition from expanding existing activities or engaging in new activities;
- (c) suspension of lending, investment and credit extension operations;
- (d) prohibition from acquiring, through purchase or lease, additional property and equipment;
- (e) prohibition from accepting further deposits or other lines of credit; and
- (1) prohibition from declaring or paying bonuses, salary incentives, severance packages, management fees or reimbursement of expenses to directors or officers.

69. (1) Where a Sacco Society has demonstrated a disregard for safe, sound business practices or a lack willingness or ability to correct weaknesses of a magnitude that the Authority believes can be corrected by the Sacco Society, a memorandum of understanding and agreement shall be entered into.

Memorandum of understanding and agreement.

(2) The memorandum of understanding and agreement shall set forth specific corrective or remedial actions to be undertaken by the Sacco Society within a specified period.

(3) The memorandum of understanding and agreement shall be signed between the board of directors and the Authority.

(4) For the purpose of determining compliance with the memorandum of understanding and agreement, the Authority shall make frequent supervisory contacts with the Sacco Society.

(5) Failure to comply within the specified time frame, the Authority may invoke the provisions of regulation 66 to safeguard the Sacco Society's assets.

(6) The Authority shall consider the memorandum of

understanding and agreement to have been complied with, upon a Sacco Society undertaking satisfactory correction of all material issues raised therein.

70. (1) The Authority shall issue a letter of understanding and agreement directing the Sacco Society to address the unsafe and unsound practices that have not been sufficiently addressed as stipulated in the memorandum of understanding and agreement.

Letter of understanding and agreement.

(2) Violation of the letter of understanding and agreement may lead to sanctions stipulated in section 51 of the Act or a Cease and Desist Order under regulation 71.

71. (1) A Cease and Desist Order shall be issued where the Sacco Society has—

The cease and desist order.

- (a) engaged or continues to engage in any unsafe business practice; and
- (b) violated or continues to violate the Act, these Regulations, or any written agreement between the Sacco Society and the Authority.

(2) The order shall state the specific actions that shall be ceased, who is to cease from doing the action, and the time period. If the necessary corrections are not made, the Authority may invoke the provisions of regulation 66 to safeguard a Sacco Society's assets and impose penalties as stipulated in the Act.

(3) The order shall be signed by the Authority and served upon the board of directors of the Sacco Society.

72. (1) The Authority may prohibit any individual seeking to be a director or employee of a Sacco Society, if the individual has been charged or convicted with a crime involving monetary loss, fraud, perjury, or breach of contract of a licensed financial institution.

Prohibitions and removal of officers.

(2) The Authority may prohibit an individual from seeking to be a director or employee if he or she is likely to pose a threat to the interest or threaten to impair public confidence in the Sacco Society.

(3) A person against whom disciplinary action has been taken by way of removal from office shall be ineligible to hold office in any Sacco Society for a period of three years or such other period as may be determined by the Authority.

(4) The Authority may direct a Sacco Society not to conduct business or discontinue conducting business with an individual or legal entity that has been charged with a crime involving monetary loss, fraud, perjury, breach of contract or a crime which may pose a threat to the interest of the Sacco Society or threaten to impair public confidence in the Sacco Society.

(5) The prohibition order shall be addressed to the Sacco Society board of directors and the prohibited party, stating specifically the reason for the prohibition and that it shall take immediate effect.

(6) The Authority or Sacco Society may remove an officer from office, if the officer—

- (a) directly or indirectly violates the Act, these Regulations or the Sacco societies bylaws;
- (b) engages or participates in any unsafe or unsound practice in connection with the Sacco Society;
- (c) has a non performing loan or becomes a bad debtor; and
- (d) commits any act, or practice or fails to take appropriate action, thereby committing a breach of fiduciary responsibility, resulting in or likely to result in—
 - (i) a Sacco Society suffering financial loss or other damage;
 - (ii) members' interest being prejudiced; or
 - (iii) any party receiving unfair financial gain or other benefit.

(7) A notice to remove an officer from office by the Authority shall contain specific statement of facts constituting the grounds for removal and shall take immediate effect.

(8) A person aggrieved by the removal order may appeal to the Minister.

73. (1) The Authority shall place a Sacco Society under statutory management if the Sacco Society—

Statutory
management.

- (a) wilfully and continuously fails to comply with instructions issued by the Authority;
- (b) has abandoned its core business or does not operate in the members' best interests;
- (c) is totally incapable of coping with severe financial problems that need to be brought under control;
- (d) has engaged in unsound financial practices resulting in massive erosion of capital; or
- (e) if a petition is filed for winding up of the Sacco Society.

(2) A Sacco Society's financial soundness and the member's interests shall be considered threatened if-

- (a) the Sacco Society is unable to meet its obligations to depositors and creditors;
- (b) institutional capital is less than two percent of total assets

and on a declining trend.

(3) All expenses associated with the statutory management shall

be met by the Sacco Society.

74. (1) A person shall not be appointed as a statutory manager of a Sacco Society, if that person is a member of the Sacco Society, a creditor of the same or is related to or is an immediate family member to a former officer.

Appointment of a statutory manager.

(2) Effective from the moment the statutory management is ordered, the following shall apply—

- (a) the statutory manager shall operate on behalf of the Sacco Society;
- (b) all powers of the general meeting of members, board of directors and management shall be suspended and transferred to the statutory manager;
- (c) no attachment or lien except a lien created by the Authority, shall attach to any property or asset of the Sacco Society concerned as long as the statutory management stands;
- (d) any gratuitous transfer of any asset of the Sacco Society made within the period of one year before the statutory management shall stand revoked and all such assets shall be surrendered to the Authority;
- (e) any lending to an officer or related party which is found to have been advanced on preferential terms or without adequate security made within six months prior to the statutory management shall be recalled, and that officer or person related to the officer shall immediately refund the monies advanced and pay any interest due.

75. (1) Save as provided in the Act, the Authority reserves the right to impose the following penalties in accordance with section 51(m) of the Act—

Financial penalties.

- (a) a Sacco Society which fails to submit reports and information required by the Authority commits an offence and is liable to a penalty not exceeding one hundred thousand shillings
- (b) a Sacco Society which submits incorrect reports and information to the Authority commits an offence and is liable to a penalty not exceeding one hundred thousand shillings per incident

(2) A Sacco Society which violates the terms of a letter of understanding and agreement or a cease and desist order, is liable to a penalty not exceeding one hundred thousand shillings. The penalty order shall be issued by the Authority to be served upon the guilty

party and a copy thereof to the board of directors, stating the reason for and the amount.

(3) The penalty levied shall be payable within fourteen days

from the date of receipt of the order imposing it and shall be paid through electronic funds transfer in favour of the Authority.

(4) Any amounts of the penalty which remain outstanding past the due date shall attract an interest of one percent per day till full settlement.

PART XII — INFORMATION PRESERVATION AND BUSINESS CONTINUITY

76. (1) The board of directors of a Sacco Society shall be responsible for the establishment of an information preservation policy which shall address information preservation and business continuity.

Information preservation.

(2) A Sacco Society shall copy all its critical information to a memory device and store in a fireproof safe on a daily basis, and shall store weekly backups off-site.

(3) An information preservation log shall be maintained at the Sacco Society showing the type of records stored, location of storage, the time the records were stored and the person who sent the records for storage as well as the person who did the backup.

(4) For purposes of these Regulations “critical records” means minimum records required to restore Sacco business operations in the event of a disaster, which may include but not be limited to a list of shares, savings deposits and loan balances for each member’s account, investments, bank balances and a financial report which lists asset, liability and equity accounts.

77. A Sacco Society shall keep copies of vital records at an offsite location and such records may include copies of titles for property and equipment owned by the Sacco Society; copies of securities pledged by borrowers; copies of external borrowing agreements and insurance policies.

Vital records.

78. Each Sacco Society shall have a written disaster preparedness plan approved by the board of directors, the size and sophistication of which shall be commensurate with the complexity of the Sacco Society operations, and which shall address, at a minimum—

Disaster preparedness and business continuity.

- (a) the interval at which the plan shall be reviewed;
- (b) the person responsible for implementing the plan;
- (c) the duties and responsibilities of the employees who are responsible for assessing the situation, providing information and establishing member service as quickly as possible;
- (d) identification of alternative locations equipped with the necessary equipment to maintain critical operations for a sufficient time period in the event of a disaster;
- (e) identification of the critical information needed to operate

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the Sacco Society in case of disaster;

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(f) intervals of testing the back ups and the plan;

- (g) a security plan designed to protect the Sacco Society's premises from robberies and burglaries which shall be reviewed periodically; and
- (h) a suitable standby power backup. PART

XIII—DEPOSIT GUARANTEE FUND

79. (1) In compliance with section 56 (1) (f) of the Act, the Authority shall be responsible for coordinating all licensed Sacco societies in nominating four persons to be appointed by the Minister to the board of the Deposit Guarantee Fund. Such nominations shall be conducted on the basis of agreed terms reflecting gender balance and equitable representation.

Board composition.

(2) Members appointed to the Board of Trustees of the Fund shall serve for a term of three years, which shall be renewable once only.

80. (1) No Sacco Society shall be exempt from paying its assessed annual premiums to the Fund.

Scope and coverage.

(2) The Fund shall compensate members of a failed Sacco Society for up to one hundred thousand shillings net of any liabilities, and all Sacco societies shall inform their members of the existence of the Fund.

81. (1) A Sacco Society shall pay annual premiums of fifty thousand shillings or zero point zero five percent of total savings and deposits, whichever is higher, to the Fund.

Premium.

(2) The board of trustees of the Fund shall notify every Sacco Society of the amount of premium and date of payment at least ninety days before its annual premiums fall due.

(3) For purposes of determining premiums to be paid to the Deposit Guarantee Fund, a Sacco Society shall be assessed on its average savings and deposits during the preceding three years, and Sacco societies which amalgamate shall not be charged extra premium during the year of amalgamation.

(4) The Board of Trustees shall manage the Fund through investing premiums paid by Sacco Societies and at least fifty per cent of the proceeds accruing from the investment of the fund in institutions prescribed by the Act and the other fifty per cent of the proceeds may be used to defray operational expenses.

(5) A Sacco Society which contravenes this regulation—

- (a) shall have its license revoked as provided for under section 27 of the Act and shall only have the license reinstated once

the Authority is satisfied that the Sacco Society has fully complied with this regulation, and

- (b) Any officer of the Sacco Society and or any other person engaged in the management of the Sacco Society was aware that the contravention was taking place, or was intended or about to take place, but took no reasonable steps to prevent the contravention or contributed to the contravention commits an offence and is liable on conviction to a fine not exceeding one hundred thousand shillings or imprisonment for a term not exceeding twelve months or to both.

82. (1) In the event of collapse of a licensed Sacco Society, its members may lodge their compensation claims with the Fund within ninety days from the time notice is given.

Depositor
compensation.

(2) The Fund shall settle all verified claims lodged with it within ninety days after the date from which lodging of claims is closed.

(3) The Fund shall exercise discretion in determining whether or not to admit claims lodged out of time.

(4) Compensation to claimants shall be settled in the manner advised by the claimants and notification made to the last address provided by the claimant.

(5) An unclaimed compensation in the society's records shall be sent to the member's last known address.

PART XIV—MISCELLANEOUS PROVISIONS

83. (1) A Sacco Society shall not amalgamate with another Sacco Society without prior written approval of the Authority.

Amalgamations.

(2) An application for approval amalgamation shall be accompanied by the following information-

- (a) an amalgamation plan detailing probable asset or share ratios, share adjustments, designation of continuing Sacco Society, its bylaws, state of guarantee of member deposits, non conforming assets and liabilities, and provisions for notification and payment of creditors;
- (b) the resolution of the boards of directors to carry out the amalgamation;
- (c) the amalgamation agreement;
- (d) the proposed notice of Special General Meeting;
- (e) financial statements and statistical report in respect of the preceding months;
- (f) combined statement of financial condition ;

- (g) application for guarantee of members' deposits.
- (3) The Authority shall approve or deny the application for

amalgamation within thirty days of receiving all necessary and required information.

(4) Where the Authority gives its approval, each of the Sacco societies shall, not later than thirty days thereafter, notify all the creditors of the forthcoming changes in writing, post the information in all Sacco Society offices, and place the relevant information in a national newspaper of wide circulation.

84. (1) A Sacco Society which at the commencement of these Regulations, is carrying out Sacco deposit-taking business shall-

Transitional provisions.

- (a) apply for a license within twelve months from the date of publication of these Regulations;
- (b) build up a core capital of not less than ten million shillings before licensing;
- (c) build up a core capital of not less than four percent of the total assets, which shall graduate to ten percent by the fourth year after such commencement;
- (d) build up an institutional capital of not less than two percent of the total assets, which shall graduate to eight per cent by the fourth year;
- (e) have core capital of not less than five per cent of the total deposit liabilities which shall graduate to eight percent by the fourth year;
- (f) divest from non-core businesses to the prescribed standard within four years from the date of licensing under these Regulations;
- (g) regularise external borrowings to the prescribed limit in these Regulations within four years from the date of licensing.

FIRST SCHEDULE

r. 4(2) (a)

FORM 1:
SASRA1/001

APPLICATION FORM FOR A LICENCE

1. Name of Sacco Society:
- C.S. No.Date of Registration
2. Location of Registered Office
3. Physical Address of Head Office: L.R. No.....

Street

Building.....

4. Postal Address Postal Code.....

Telephone No.....P.I.N. No.....

E-mail Address.

5. Names of places of business in Kenya and the number of years each has been established and has conducted or carried out business

<i>S/No.</i>	<i>Name of Branch</i>	<i>Year Established</i>	<i>No. of Years in Operation</i>
1			
2			
3			
4			
5			
6			
7			
8			

NB: Attach to this application a list of other places of business. Provide name of the place of business, state whether it is a satellite, mobile unit, ATM or point of sale etc.

6. Former name(s), if applicable, by which the Sacco Society has been known

1from to.....

2from to.....

3from to.....

4f r o m _t o

7. Details of Capital

(a).Paid-up value.....

(b).Core capital

(c).Institutional capital

8. Particulars of Officers:

a) Directors

<i>Present & Former Name</i>	<i>DOB</i>	<i>Address</i>	<i>Date of Appointment</i>	<i>Other Directorship</i>
1.				
2.				
3.				
4.				
5.				
6.				
7.				

b) Senior Management

<i>Present & Former Names</i>	<i>Designation</i>	<i>DOB</i>	<i>Academic/ Professional Qualifications</i>	<i>YO</i>	<i>DOA</i>	<i>Previous Employment</i>

Note: DOB – Date of Birth; YO – Year Obtained; DOA – Date of Appointment.

9. Names of Bankers and their Address

1. Box
2. Box
3. Box
4. Box

10. Has the Sacco Society ever been put under receivership or made any compromise or arrangement with its creditors or otherwise failed to satisfy creditors in full?

I f s o , g i v e p a r t i c u l a r s

11. Is the Sacco Society under investigation by an inspector or other authorized officer of any government ministry, department or agency, professional association or other regulatory body or has any investigation ever taken place in the affairs of the Sacco Society? If so, give particulars É É É

.....

12. Is the Sacco Society currently engaged or does it expect to be involved in any litigation which may have a material effect on the resources of the Sacco Society? If so, give particulars.....

13. DECLARATION

We, the undersigned, being officers of the Sacco Society, declare that to the best of our knowledge and belief, the information contained herein and any attachments is complete, accurate and true.

a) Chairman (Name).....

Signature.....Date

b) Chief Executive Officer (Name)

Signature.....Date

Note: This application must be accompanied by all the relevant documents and requirements prescribed in the Act and these Regulations.

FORM 2:
SASRA1 /002

THE FIT & PROPER TEST

NOTE: Read the declaration on Section 6 below before completing this form. In case the space provided is inadequate, use additional paper.

1. THE SACCO SOCIETY

- a) Name
- b) C/S NO..... Date of Registration.....

2. PERSONAL INFORMATION

- a) Surname
- Other Names
- b) Previous Names (if any) by which you have been known:.....
- c) Year and Place of birth:
- d) Personal Identification Number.....
- e) ID. Card/Passport number and date of issue.....
- f) Postal Address:
- g) Previous Postal Addresses (if any)
- h) Physical Address.....
- i) Educational Qualification and year obtained
- j) Professional Qualifications and years obtained.....
- k) Name(s) of your bankers during the last 5 years

3. EMPLOYMENT/ BUSINESS RECORD

<i>Name of Employer/ Business</i>	<i>Address</i>	<i>Period</i>	<i>Position Held</i>	<i>Dates</i>		<i>Reasons for Leaving</i>
				<i>From</i>	<i>To</i>	

4 DESCRIPTION OF YOUR PAST AND CURRENT ACTIVITIES

4.1 SHAREHOLDING (DIRECTLY OWNED OR THROUGH NOMINEES)

<i>Name of Institution</i>	<i>Date of Incorporation</i>	<i>Amount of Shareholding</i>	<i>% of</i>	<i>Past Shareholding</i>		<i>Remarks</i>
				<i>A</i>	<i>B</i>	

Key

A: Refers to date of closure or surrender of shares

B: Refers to reasons for closure or surrender

4.2 DIRECTORSHIP

<i>Name of Institution</i>	<i>Date of Incorporation</i>	<i>Executive or Non-</i>	<i>Position Held in case of executive</i>	<i>Past Directorshi</i>		<i>Remarks</i>
				<i>A</i>	<i>B</i>	

Key

C: Refers to date of retirement

D: Refers to reasons for retirement or resignation

* Borrower to indicate individual/personal as well as the private Company shareholdings in excess of 5%.

5. QUESTIONNAIRE

5.1 Have you or has any entity with which you are associated as director, shareholder or manager, ever held or applied for a licence or equivalent authorization to carry on any business activity in any country? If so, give particulars.....

.....
.....

Do you know whether any such application was rejected or withdrawn after it was made or any authorization revoked?..... If so, give particulars

.....
.....
.....

52 Have you at any time been convicted of any criminal offence in any jurisdiction?

If so, give particulars of the court in which you were convicted, the offence, the penalty imposed and the date of conviction.....

.....
.....

53 ~~Have you, or any entity with which you have been involved, been censured, disciplined, warned as to future conduct, or publicly criticized by any regulatory authority or any professional body in any country?~~ If so, give particulars

.....
.....
.....

54 ~~Have you, or has any entity with which you are involved, or have been associated as a director, shareholder or manager, been the subject of an investigation, in any country, by a government department or agency, professional association or other regulatory body?.....~~ If so, give particulars.....

.....
.....
.....
.....

55 Have you ever been dismissed from any employment, or been subject to disciplinary proceedings by your employer or barred from entry of any profession or occupation? If so give particulars.....
.....
.....
.....
.....

56 Have you failed to satisfy any debt adjudged due and payable by you on an order of court, or have you made any compromise arrangement with your creditors within the last 10 years?If so, give particulars
.....
.....
.....

57 Have you ever been declared bankrupt by a court or has a bankruptcy petition ever been served on you? If so, give particulars.
.....
.....

58 ~~Have you ever been held liable by a court, for any fraud or other misconduct?~~
..... If so, give particulars.....
.....
.....

59 Has any entity with which you were associated as a director, shareholder or manager in any country made any compromise or arrangement with its creditors, been wound up or otherwise ceased business either while you were associated with it or within one year after you ceased to be associated with it? If so, give p a r t i c u l a r s
.....
.....
.....

5.10 Are you presently, or do you, other than in a professional capacity, expect to be engaged in any litigation in any country? If so, give particulars

.....

.....

.....

.....

5.11 Indicate the names, addresses, telephone numbers and positions of three individuals of good standing who would be able to provide a reference on your personal and professional integrity. The referees must not be related to you, and should have known you for at least five years.

i).

ii).

iii).

5.12 Is there any additional information which you consider relevant for the consideration of your suitability or otherwise for the position(s) held/to be held?

..... if so give particulars

.....

.....

NOTE: The information given in response to this questionnaire shall be kept confidential by the Authority, except in cases provided for by law. The omission of material facts may represent the provision of misleading information.

6. DECLARATION

I am aware that it is an offence to knowingly or recklessly provide any information, which is false or misleading in connection with an application for a licence to carry out the Sacco deposit-taking business in Kenya. I am also aware that omitting material information intentionally or un-intentionally shall be construed to be an offence and may lead to rejection of my application and legal action being taken against the offender.

I certify that the information given above is complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the Sacco societies Regulatory Authority should be aware.

I undertake to inform the Authority of any changes material to the applications which may arise while the application is under consideration.

Further, I confirm that I have agreed to fulfil the responsibilities related to this position.

N a m e :

S i g n e d :

D a t e d a t Day of 2 0

WITNESSED BEFORE ME: SIGNED(Witness)

COMMISSIONER FOR OATHS/ MAGISTRATE

Name.....

Signature.....

Address
.....
.....

NOTES FOR COMPLETION OF APPLICATION FORMS

GENERAL

These completion instructions are issued to give further guidance on completion of certain items in the application forms for a licence to conduct deposit taking Sacco business. These include.

(i). Fit and Proper Test—

This should be completed by all persons proposed as directors and senior management. In the case of senior management, the following officers: the chief executive officer and the deputy chief executive officer if any or the equivalent by whatever title they are called by the Sacco Society and the officers in charge of finance and audit functions or any other officer as may be determined by the Authority.

(ii). Educational qualification- State only qualifications attained at college level or highest educational qualification.

(iii). The rest of the items are considered self explanatory and should be completed as fully as possible.

FORM 3
SASRA1 /003

LICENCE No.

LICENCE

This LICENCE is granted to..... (Name of Sacco Society) C / S No. of (Address) and authorizes the said Sacco Society to conduct deposit-taking Sacco business in Kenya.

This Licence is issued subject to the provisions of the Sacco Societies Act No. 14 of 2008 and the regulations issued there under and to any conditions endorsed hereon.

CONDITIONS:

- 1.
- 2.
- 3.
- 4.

This LICENCE covers the period FROM _____ TO _____ for the Sacco Society's head office and all places of business annexed hereto.

The Sacco Societies Regulatory Authority may at any time revoke, amend or restrict this licence or vary any terms and/or conditions of its issuance.

Issued under the common seal of

THE SACCO SOCIETIES REGULATORY AUTHORITY

Dated this day of 20

CEO

THE SACCO SOCIETIES REGULATORY AUTHORITY

SECOND SCHEDULE

r.1 1(1)

FORM 1

SASRA2/001

CAPITAL ADEQUACY RETURN

Name of Sacco Society:		CS No.....
Financial Year:		
Start Date:		
End Date:		
1.	CAPITAL COMPONENTS	AMOUNT (KSh. '000'
1.1	CORE CAPITAL	
1.1.1	Share Capital	
1.1.2	Statutory Reserves	
1.1.3	Retained earnings/Accumulated losses	
1.1.4	Net Surplus after Tax, current year to-date 50%	
1.1.5	Capital Grants	
1.1.6	General Reserves	
1.1.7	Other Reserves	
1.1.8	Sub-Total (1.1 .1 to 1.1.7)	
LESS DEDUCTIONS		
1.1.9	Investments in Subsidiary and Equity instruments of Other Institutions	
1.1.10	Other Deductions	
1.1.11	TotalDeductions (1.1.9 to 1.1.10)	
1.1.12	CORE CAPITAL (1.1.8 Less 1.1.11)	
1.1.13	INSTITUTIONAL CAPITAL (1.1.12 Less 1.1.1)	
2.	ON - BALANCE SHEET ASSETS	
2.1	Cash (Local + Foreign Currency)	
2.2	Government Securities	
2.3	Deposits and Balances at Other Institutions.	
2.4	Loans and Advances	
2.5	Investments	
2.6	Property and Equipment (net of depreciation)	
2.7	Other Assets	
2.8	TOTAL(2.1 to 2.7)	
2.9	Total Assets (As per Balance Sheet)	
2.10	Difference	

3.	OFF-BALANCE SHEET ASSETS	

4.	CAPITAL RATIO CALCULATIONS	
4.1	Total Asset value of on-balance sheet items as per 2.8 above	
4.2	Total Asset value of off-balance sheet items as per 3 above	
4.3	Total Assets (4.1 + 4.2)	
4.4	Total Deposits Liabilities (As per Balance Sheet)	
4.5	Core Capital to Assets Ratio (1.1.12/4.3)%	0.0%
4.6	Minimum Core Capital to Assets Ratio requirement	10.0%
4.7	Excess (deficiency) (4.5 less 4.6)	-10.0%
4.8	Institutional Capital to Assets Ratio (1.1.13/4.3)%	0.0%
4.9	Minimum Institutional to Asset Ratio requirement	8%
4.10	Excess (deficiency) (4.8 less 4.9)	-8%
4.11	Core capital to Deposits Ratio (1.1.12/4.4)%	0.0%
4.12	Minimum Core Capital to Deposits requirement	8.0%
4.13	Excess/(Deficiency) (4.0 less 5.0)	-8.0%
* A reconciliation for the difference to be attached on a separate sheet.		
Note: Monthly return to be received on or before the 15th day of the following month		
AUTHORIZATION:		
We declare that this return, to the best of our knowledge and belief is correct.		
..... Sign.....Date:		
Name of Authorizing Officer		
..... Sign.....Date:		
Name of Countersigning Officer		

COMPLETION INSTRUCTIONS ON CAPITAL ADEQUACY RETURN

1 CAPITAL COMPONENTS

1.1 CORE CAPITAL

1.1.1 Share Capital

This is the value issued and fully paid members shares.

1.1.2 Statutory Reserve

These are accumulated reserves that have been appropriated from net surplus (revenue reserves) over the years. This is normally 20% of retained earnings after tax.

1.1.3 Retained Earnings/Accumulated Losses

These are reserves retained from earnings or accumulated losses from the profits/losses of prior years. They should however exclude reserves arising from revaluation of investment properties and cumulative unrealised gains and losses on financial instruments

1.1.4 Net Surplus after Tax Current Year to Date 50%

This is 50% of current year to date un-audited after tax profits. The Sacco Society must have made adequate provisions for loan losses, depreciation, amortization and other expenses. In arriving at the applicable figure, any proposed dividends would have been taken into account. This should however exclude reserves arising from revaluation of investment properties and cumulative unrealised gains and losses on financial instruments. In case of a loss, full amount should be included.

1.1.5 Donations and Grants

These are donations to the Sacco Society that are irredeemable or non payable

1.1.6 General Reserves

These are reserve provisions to cover other non performing receivable accounts.

1.1.7 Other Reserves

These are all other reserves, which have not been included above. Such reserves should be permanent, unencumbered, uncollectible and thus able to absorb losses. Further, the reserves should exclude cumulative unrealised gains and losses on available-for-sale-instruments.

1.1.8 Sub-Total

Enter in this line the sub-total of all the items from 1.1.1 to 1.1.5.

DEDUCTIONS FROM CORE CAPITAL

1.1.9 Investment in Subsidiary and Equity Instruments of Other Institutions

This is investments made by a Sacco Society in its subsidiary institutions and equity instruments of other institutions.

1.1.10 Other Deductions

In this line, enter any other deductible items that have not been dealt with in 1.1.9.

1.1.11 Total Deductions

This is the total of all the items from 1.1.9 to 1.1.10.

1.1.12 Core Capital

Core Capital is the deduction of line 1.1.8 from line 1.1.11

1.1.13 Institutional Capital

Institutional Capital comprises of all items in the Core Capital less Share Capital i.e. (1.1.12 less 1.1.1)

2. ON-BALANCE SHEET ASSETS**21 Cash**

Enter in this line cash at hand (Local + Foreign notes and coins).

22 Government Securities

These are Treasury bills and treasury issued by the Government of Kenya.

23 Deposits and Balances Due from Lending Institutions

These are deposits and balances held with banks, other financial institutions, and other Sacco societies including overnight balances.

24 Loans and Advances

These refer to are facilities advanced to members whether secured or not. These be reported net of provisions which must be computed in accordance with Classification of Assets and Provisioning Return. However, provisions appropriated from retained earning should not be netted off from loans and advances.

2.5 Investments

These are investments in a Sacco Society's subsidiary institutions and other financial institutions.

2.6 Property and Equipment

These are assets acquired for use in the operation of the business or for investment purposes, e.g. furniture, computers, freehold and leasehold land and buildings. They should be shown net of accumulated depreciation, amortized cost, or at fair value.

2.7 Other Assets

These are other assets, which have not been dealt with above.

2.8 Total On-Balance Sheet Assets

Enter in this line total on-balance sheet asset i.e. total of line 2.1 to 2.7.

2.9 Total Assets (As per Balance Sheet)

Total asset figure as reported in the Balance Sheet for the period should be indicated in this line.

2.10 Difference

This is the difference between total on-balance sheet assets and total assets as reported in the un-Audited Monthly Balance Sheet. The difference should be explained in the form of reconciliation.

3. OFF-BALANCE SHEET ITEMS

In this line, indicate computed off-balance sheet assets such as existing guarantees by the Sacco Society

4.0 CAPITAL RATIO CALCULATIONS

Compute as per the formulae provided in the form.

4.5 Total Deposits

Total deposit figure as reported in the Balance Sheet for the period should be indicated in this line.

GENERAL: All reported items should agree with or capable of being derived from the figures reported in the Balance Sheet for the period. This is a monthly return and should be submitted by the 15th day of the following month.

FORM 2
SASRA2/002

LIQUIDITY STATEMENT

	Sacco Society:		CS No.....
	Financial Year:		
	Start Date:		
	End Date:		
1.	Notes and Coins		KShs '000
1.1	Local Notes and Coins		
1.2	Foreign Notes and Coins		
2	Bank Balances		
2.1	Balances with banks		
	Less:		
2.2	Time deposits with banks more than 90 days		
2.3	Overdrafts and matured loans/ Advances from banks		
3	Balances with Other Financial Institutions		
3.1	Balances with Other Sacco societies		
3.2	Balances with Other Financial Institutions other than Banks and Sacco societies		
	Less:		
3.3	Balances due to other Sacco societies		
3.4	Balances due to Financial Institutions		
3.5	Matured Loans/Advances from Financial Institutions		
4	GOVERNMENT SECURITIES		
4.1	Treasury Bills		
4.2	Treasury Bonds		
5.	NET LIQUID ASSETS (1-4)		
6.	DEPOSIT BALANCES		
6.1	Deposits from members including interest		
6.2	Deposits from all other sources including accrued interest		
6.3	Total deposits		
	Less :		
6.4	Balances due to Sacco societies		
6.5	Balances due to Banks		
6.6	Balances due to other Financial Institutions		
6.7	Total deductions		
6.8	Net Deposit Liabilities		

7	OTHER LIABILITIES	
7.1	Matured	
7.2	Maturing within 91 days	

7.3	Total Other Liabilities	
8	LIQUIDITY RATIO	
8.1	Net Liquid Assets (5)	
8.2	Total Short term Liabilities 6.3+7.3	
8.3	Ratio of(8.1/8.2)%	0.0%
8.4	Minimum Holding of Liquid Assets Requirement	15.0%
8.5	Excess/Deficit (8.3-8.4)	-15.0%

** A reconciliation for the difference to be attached on a separate sheet.*

Note: Monthly return to be received on or before the 15th day of the following month

AUTHORIZATION:

We declare that this return, to the best of our knowledge and belief is correct.....	
Sign.....	Date:
Name of Authorizing Officer	
Sign.....	Date:
Name of Countersigning Officer	

COMPLETION INSTRUCTIONS FOR LIQUIDITY STATEMENT

1. Notes and Coins

1.1. Local

Enter all notes and coins on the Sacco Society's premises (including mobile units) which are legal tender in Kenya.

1.2 Foreign

Enter the Kenyan shillings equivalent of all convertible foreign currencies held by the Sacco Society. The CBK mean rates as on the reporting dates should be applied in converting foreign currencies into Kenya shillings.

2. Balances with Banks

2.1 Balances with banks

Enter the total of all balances (overnight, call and time) held at domestic commercial banks excluding un-cleared effects. These balances should include accrued interest.

2.2 Time Deposits with Banks

Enter the amount of time deposits including accrued interest entered in 4(a) above whose maturities exceed 91 days.

2.3 Balances Due to Banks

Enter the total of balances due to commercial banks including accrued interest.

2.4 Overdrafts and Matured loans and advances from domestic banks

Enter the total of all overdrafts and any other debit balances on matured loans and advances including guarantees and bonds issued by commercial banks.

3. Balances with Financial Institutions

3.1 Balances with Financial Institutions

Enter the total of all balances (overnight, call and time) placed with the Sacco Society by financial institutions (mortgage companies, building societies etc), excluding un-cleared effects but including accrued interest.

3.2 Time Deposits with Financial Institutions

Enter the amount of time deposits including accrued interest entered in 6(a) above whose maturities exceed 91 days.

3.3 Balances due to Financial Institutions

Enter the total of balances received from financial institutions including accrued interest. This balance should agree with the total analysed in the table attached and should exclude balances with maturity period exceeding 91 days.

3.4 Matured Loans and Advances received from Financial Institutions

Enter the total of matured loans and advances including guarantees, bills discounted, promissory notes and performance bonds received from financial institutions. All deposits/placements with institutions/building societies under liquidation should not be reported as part of liquid assets.

4. Government Securities

4.1 Treasury Bills

Enter the amortized cost of all Kenya Government Treasury Bills investments by the reporting Sacco Society, net of encumbered Treasury Bills. Encumbered Treasury Bills are those pledged to secure any form of credit facility granted to the reporting Sacco Society.

4.1 Treasury Bonds/ Bearer Bonds

Enter the amortized cost or fair value of all treasury bonds/bearer bonds traded in the Nairobi Stock Exchange acquired by the reporting Sacco Society directly from the government and its issuing agents and those discounted from third parties.

5. Net Liquid Assets Enter the sum of items 1 to 4 above

6. Deposit Balances

6.3 Total deposit

Enter total deposits (6.1 – 6.2) from the members and all other sources, including accrued interest, but excluding un-cleared effects.

Less:

6.4 Balances Due to Sacco societies.

Enter the total amount of balances due to other Sacco societies including accrued interest.

6.5 Balances Due to banks

Enter the total of balances due to domestic and foreign commercial banks including accrued interest.

6.6 Balances due to Financial Institutions.

Enter the total amount of balances due to financial institutions including accrued interest.

6.7 Total Deductions

Enter the total of items 6.4 – 6.6

6.8 Net Deposit Liabilities

Enter the net amount of item 6.3 less 6.7

7. Other liabilities

7.1 Matured:

Enter the sum of all matured liabilities (Including crystallized off-balance sheet commitments) that have cash flow implications and are due for payment.

7.2 Maturing within 91 days

Enter the sum of all liabilities that will mature within 90 days from the date of the return.

7.3 Total other liabilities

Enter the total of items 7.1 –7.2

8. Liquidity Ratio Calculate the ratios

using the formula provided

The liquidity statement should be completed as per the instructions contained in this regulation, and should be submitted on the 15th of the following month.

r. (24)

FORM 3
SASRA2/003

STATEMENT OF DEPOSIT RETURN

Name of Sacco Society			CS No.
Financial Year:			
Start Date:			
End Date:			
No.	Range	* Type of Deposit	No. of A/Cs
1	Less than 50,000	Non withdraw-able	
		Savings	
		Term	
2	50,000 to 100,000	Non withdraw-able	
		Savings	
		Term	
3	100,000 to 300,000	Non withdraw-able	
		Savings	
		Term	
4	300,000 to 1,000,000	Non withdraw-able	
		Savings	
		Term	
5	Over 1,000,000	Non withdraw-able	
		Savings	
		Term	
		TOTAL	
Note: Monthly return to be received on or before the fifteenth day of the following month			
* To include accrued interest and any other form of deposit			
AUTHORIZATION: _____			
We declare that this return, to the best of our knowledge and belief is correct.			
..... Sign..... Date:.....			
Name of Authorizing Officer			

..... Sign Date:
Name of Countersigning Officer

FORM 4

r.46

SASRA2/004

RISK CLASSIFICATION OF ASSETS AND PROVISIONING

Name Of Sacco Society					C/S No.
Financial Year:					
Start Date:					
End Date:					
PORTFOLIO AGEING REPORT					
		A	B	C	D
No.	Classification	No. of A/Cs	Outstanding Loan Portfolio (KSh.)	Required Provision	Required Provision Amount (KSh.)
1	Performing			1%	
2	Watch			5%	
3	Substandard			25%	
4	Doubtful			50%	
5	Loss			100%	
	<i>Sub-Total</i>				
	Rescheduled/Renegotiated Loans				
6	Performing			1%	
7	Watch			5%	
8	Substandard			25%	
9	Doubtful			50%	
10	Loss			100%	
	<i>Sub-Total</i>				
	GRAND TOTAL				
Note: This return should be received on or before the fifteenth day of the month following end of every quarter.					
AUTHORIZATION:					

We declare that this return, to the best of our knowledge and belief is correct.	
.....Sign.....Date:..... Name of Authorizing Officer	
.....Sign.....Date:..... Name of Countersigning Officer	

COMPLETION INSTRUCTIONS FOR RISK CLASSIFICATION AND LOAN LOSS
PROVISIONING

1. General

This return should be completed strictly in accordance with the Regulation on Risk Classification and Loan Loss Provisioning.

1. Enter in column A the number of accounts under each classification.
2. Enter in column B the amount outstanding under each classification categories of Performing; Watch; Sub-standard; Doubtful and Loss.
3. Enter in column C the minimum provisions requirement in percentages in each classification category.
4. Enter in column D provisions required in each classification category.
5. Enter in column E the discounted value of securities held in each classification category.
6. Enter the difference between column D and E in column F, but for performing and watch class, enter the amount as is in column D in column F.

2 Notes for establishment and maintenance of the Allowance for loan loss account

Allowance for loan loss account shall be a one time adjustment and shall be established as follows:

- a) Create a contra-asset account to be called "Allowance for Loan loss"
- b) Create the expense account to be known as "provision for loan loss"
- c) Determine the amount needed in the allowance for loan loss by completing a risk classification form and credit the amount to the Allowance for loan loss.
- d) Fund the amount needed in the allowance for loan loss by debiting the same to retained earnings account. This is a one time adjustment.
- e) Maintain the allowance for loan loss by debiting and crediting provision for loan loss and allowance for loan loss after performing a risk classification and loan loss provisioning.
- f) To charge off loans, debit allowance for loan loss and credit loans to members

with the same amount

- g) To account for recovery of charged off bad debts, debit the bank account and credit allowance for loan loss account.

(r.51)

FORM 5
SASRA2/005

INVESTMENT RETURN

Sacco Society		CS/No.
Financial Year		
Start Date		
End Date		
Ref. No.		
1.1	Core capital	
1.2	Total assets	
1.3	Total deposits	
1.4	Non earning assets	
1.5	Financial assets	
1.6	Land and Building	
2.0	Land and buildings to total Assets Ratio (1.6/1.2)%	
2.1	Minimum land and building to Total Assets requirement	5.0%
2.2	Excess (deficiency) (2.0 less 2.1)	-5%
3.0	Financial investments to Core capital (1.5/1.1)%	
3.1	Minimum Financial investments to Core Capital	40.0%
3.2	Excess/(Deficiency) (3.0 less 3.1)	-40%
4.0	Financial investments to Total Deposit Liabilities Ratio (1.5/1.3)%	
4.1	Minimum financial investments to total Deposit liabilities	5.0%
4.2	Excess/(Deficiency) (4.1 less 4.2)	-5%

Note: This return should be received on or before the fifteenth day of the month following end of every quarter.

AUTHORIZATION:

We declare that this return, to the best of our knowledge and belief is correct.

Name of Authorizing Officer SignDate:

Name of Countersigning Officer	Sign	Date:
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r. 52 (3)

FORM 6
SASRA2/006

STATEMENT OF FINANCIAL POSITION

Sacco Society:		C S ____	
Financial Year:			
Start Date:			
End Date:			
		Period	Period
		Current Year	Prior Year
		KSh. '000'	KSh. '000'
Ref No.	ASSETS		
1.	Cash and Cash Equivalent	0	0
1. 1	Cash in Hand (Both Local and Foreign Notes and Coins)		
1. 2	Cash at Bank: (Placement with Financial Institutions)		
2.	Prepayments and Sundry receivables	0	0
3.	Financial Investments	0	0
3.1	Government Securities		
3.2	Other Securities		
3.3	Other Investments		
4.	Net Loan Portfolio	0	0
4. 1	Gross Loan Portfolio		
4. 2	Allowance for loan loss		
5.	Accounts Receivables	0	0
5. 1	Tax Recoverable		
5. 2	Deferred Tax Assets		
5. 3	Retirement Benefit Assets		
6.	Property and equipment	0	0
6. 1	Investment Properties		
6.2	Property and Equipment		
6. 3	Prepaid Lease Rentals		
6. 4	Intangible Assets		
6.5	Other Assets		
	Total Assets	0	0
	LIABILITIES		
7.	Savings Deposits	0	0
8.	Short Term Deposits	0	0

9.	Non withdraw-able deposits	0	0
10.	Accounts Payables & Other Liabilities	0	0

10. 1	Tax Payable		
10. 2	Dividends Payable		
10. 3	Deferred Tax Liability		
10. 4	Retirement Benefits Liability		
10. 5	Other Liabilities		
10. 6	External Borrowings		
	Total Liabilities	0	0
	EQUITY		
11.	Share Capital		
12.	Grants & Donations		
13.	Retained Earnings	0	0
13. 1	Prior Years' Retained Earnings		
13. 2	Current Year's Surplus		
14.	Other Equity accounts	0	0
14. 1	Statutory Reserve		
14. 2	Other reserves		
14. 3	Revaluation Reserve		
14. 4	Proposed Dividends		
14. 5	1 Adjustments to Equity		
	Total Equity	0	0
	Total Liabilities and Equity	0	0
Note: This return should be received within three months after the end of each financial year			
AUTHORIZATION:			
We declare that this return, to the best of our knowledge and belief is correct.			
..... Sign..... Date:			
Name of Authorizing Officer			

..... Sign..... Date:
Name of Countersigning Officer

FORM 7

r.52(3)

SASRA2/007

STATEMENT OF COMPREHENSIVE INCOME

Name of Sacco Society:		C S —	
Financial Year:			
Start Date:			
End Date:			
	INCOME STATEMENT	Period É. Current Year KSh. '000'	Period..... Prior Year KSh. '000'
Ref. No.			
1.	Financial Income	0	0
2.	Financial Income from Loans Portfolio	0	0
2.1	Interest on Loan Portfolio		
2.2	Fees and Commission on Loan Portfolio		
3.	Financial Income from Investments	0	0
2.1	Government Securities		
2.1	Deposit and Balances with Banks and Other Financial Inst.		
3.3	Other Investments		
3.4	Other Operating Income		
4.	Financial Expense	0	0
4.1.	Financial Expense on Funding Liabilities	0	0
4.2	Interest Expense on Deposits		
4.3	Cost of External Borrowings		
4.4	Dividend Expenses		
4.5	Other Financial Expense	0	0
4.6	Fees and Commissions expense		
4.7	Other expense		
5.	Net Financial Income/(Loss)	0	0
6.	Allowance for Loan Loss	0	0
6.1	Provision for Loan Losses		
6.2	Value of Loans Recovered		
7.	Operating Expenses	0	0
7.1	Personnel Expenses	0	0
7.2	Governance Expenses		
7.3	Marketing Expenses		
7.4	Depreciation and Amortization Charges	0	0
7.5	Administrative Expenses		
8.	Net Operating Income	0	0

9.	Net Non-Operating Income/ (Expense)	0	0
9.1	Non- Operating Income		

9.2	Non-Operating Expense		
10.	Net Income (Before Taxes and Donations)	0	0
11.	Taxes	0	0
11.1	Current Tax		
11.2	Deferred Tax		
12.	Net Income (After Taxes and before Donations)	0	0
13.	Donations	0	0
13.1	Donations for Loan Capital		
13.2	Donations for Operating Expense		
14.	Net Income/ (After Taxes and Donations)	0	0

Note: This return should be received within 15 days after end of the month or three months after the end of each financial year

We declare that this return, to the best of our knowledge and belief is correct.

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FORM 8
SASRA2/008

OTHER DISCLOSURES

Sacco Society:			
Financial Year:			
Start Date:			
End Date:			
	OTHER DISCLOSURES	31st Dec Current Year	31st Dec Prior Year
		KSh. '000'	KSh. '000'
Ref. No.			
1	NON-PERFORMING LOANS AND ADVANCES		
1.1	Gross Non-Performing Loans and Advances		
	Less:		
1.2	Interest in Suspense		
1.3	Total Non-Performing Loans and Advances (1.1-1.2)	0	0
	Less:		
1.4	Allowance for loan loss		
1.5	Net Non-Performing Loans (1.3-1.4)	0	0
2	INSIDER LOANS AND ADVANCES		
2.1	Directors		
2.2	Employees		
2.3	Total Insider Loans, Advances and Other Facilities	0	0
3	OFF-BALANCE SHEET ITEMS		
3.1	Guarantees and Commitments		
3.2	Other Contingent Liabilities		
3.3	Total Contingent Liabilities	0	0
4	CAPITAL STRENGTH		
4.1	Core Capital		
4.2	Institutional Capital		
4.3	Core Capital to Total Assets Ratio		

4.4	Minimum Statutory Ratio	10%	10%
4.5	Excess/(Deficiency) (4.3-4.4)	-10%	-10%
4.6	Institutional Capital to Total Assets Ratio		

4.7	Minimum Statutory Ratio	8%	8%
4.8	Excess/(Deficiency) (4.6-4.7)	-8%	-8%
4.9	Core Capital/ Deposit liabilities Ratio		
4.10	Minimum Statutory Ratio	8%	8%
4.11	Excess/(Deficiency) (4.10-4.11)	-8%	-8%
5	LIQUIDITY		
5.1	Liquidity Ratio		
5.2	Minimum Statutory Ratio	15%	15%
5.3	Excess/(Deficiency) (5.1-5.2)	-15%	-15%
6	INVESTMENTS		
6.1	Land & Buildings/Total Assets		
6.2	Minimum Statutory Ratio	5%	5%
6.3	Excess/(Deficiency) (6.1-6.3)	-5%	-5%
6.4	Financial Investments/Total Assets		
6.5	Minimum Statutory Ratio		
6.6	Excess/(Deficiency) (6.4-6.5)		

Note: This return should be received within three months after the end of each financial year

AUTHORIZATION:

We declare that this return, to the best of our knowledge and belief is correct.	
Sign.....Date:	
Name of Authorizing Officer	
Sign.....Date:	
Name of Countersigning Officer	

NOTES FOR COMPLETION OF ANNUAL, QUARTERLY AND MONTHLY FINANCIAL STATEMENTS AND OTHER DISCLOSURES

GENERAL

- (a) These completion instructions are issued to ensure uniformity of reporting by all licensed Sacco societies.
- (b) The accounts should be prepared in accordance with International Financial Reporting Standards.
- (c) All figures should be shown in thousands of Kenya shillings.
- (d) All the rows should be published irrespective of whether the licensed Sacco has a figure to report or not.
- (e) Each return should be signed by at least two authorized signatories before submission to the Authority.

STATEMENT OF FINANCIAL POSITION

ASSETS

1. Cash and Cash Equivalent

- 11 Cash in hand: Both local and foreign notes and coins held in the tills and vaults.
- 12 Cash at bank: These include: Placements by the Sacco Society with banks, microfinance and other institutions (i.e. all credit balances in current accounts held with banks and other institutions).

Note: Placements with collapsed institutions should be disclosed among "other assets" net of provisions held, if any.

2. Prepayments and sundry receivables

These are payments made by the Sacco Society prior to incurring the expense.

3. Financial Investments

3.1 Government Securities: These include:

- (i). Treasury Bills
- (ii). Treasury Bonds
- (iii). Government Stock
- (iv). Local Government Securities
- (v). Other Government Securities

These are debt securities issued by the Government of Kenya as 'held-to-maturity' type of investments.

3.2 Other Securities: These include investments that have a fixed maturity date or items held to maturity by the Sacco Society but exclude government securities.

3.3 Other Investments: These include investments with no fixed or determined payment maturities such as share investments in the National cooperative societies, deposits in central finance programme and shares in other financial institutions.

4. Net Loan Portfolio

- 41 Gross Loan Portfolio: These are loans and advances.
- 42 Allowance for Loan Loss: The portion of the Gross Loan Portfolio that has been provisioned in anticipation of losses due to default. It represents the cumulative value of the impairment losses less the cumulative value of loans written off.

5. Accounts Receivables:

- 51 Tax Recoverable: This is tax that is recoverable as a result of overpayment of tax in the previous periods.
- 52 Deferred Tax Assets: These are taxes recoverable in future periods in respect of:
- (i) Deductible temporary difference
 - (ii) The carry forward of unused tax losses
 - (iii) The carry forward of unused tax credits
- 53 Retirement Benefit Assets: These are staff retirement benefit assets computed as per IAS 19.

6 Property and equipment

- 6.1 **Investment Properties:** This is as defined in IAS 40 as a property (land or a building or part of a building or both) held by the Sacco Society to earn rentals or for capital appreciation or both. For the purposes of these Regulations, the

property will qualify to be investment where a Sacco occupies not more than 10%.

- 6.2 Property and Equipment: Comprise all the immovable and other assets of the reporting Sacco Society. They include:
- (i). Staff houses
 - (ii). Furniture, fixtures and fittings
 - (iii). Motor vehicles
 - (iv). Office equipment including computer equipment
 - (v). Land and buildings (excludes leasehold land and investment property)
 - (vi). Others not specified elsewhere including foreclosed assets.
- 6.3 Prepaid Lease Rentals: This relate to the cost of the leasehold land and building net of accumulated amortized amount.
- 6.4 Intangible Assets: Include all intangible assets such as computer software etc. But do not include goodwill, copy rights and royalties.
- 6.5 Other assets: These include assets not stated elsewhere.

LIABILITIES

- 7 Savings (Withdraw-able) Deposits
These are deposits payable on demand and include all funds received from its members that the Sacco Society is liable to pay on demand.
- 8 Term (Withdraw-able) Deposits
Deposits mobilized from members that the Sacco Society is liable to pay on a fixed date.
- 9 Non-Withdraw-able Deposits
Deposits received from members that may be used as collateral against borrowings by the members and are refundable only when the member ceases membership.
- 10 Accounts Payable & Other liabilities
- 101 Tax Payable: This relates to tax liability computed but not yet paid.
 - 102 Dividends Payable: These are dividends that have been declared but not yet paid.
 - 103 Deferred Tax Liability: These are taxes payable in future periods in respect of taxable temporary differences.
 - 104 Retirement Benefits Liability: These are the retirement benefits liability as accounted for under IAS 19.
 - 105 Other Liabilities: These include all other liabilities due not specified elsewhere.
 - 106 External Borrowings: These include all external borrowings from

banks, microfinance and other financial institutions. Special loan facilities covering funds received through special arrangements between the Kenya government and other foreign governments or

donor agencies for onward lending or distribution to members should be entered here.

EQUITY

- 11 Share Capital
This is the value of ordinary shares issued and fully paid by members.
- 12 Grants & Donations
These are grants, which are not callable and donations received recognized as equity donations.
- 13 Retained Earnings/Accumulated losses
 - 13.1 Prior Year Retained Earnings/Accumulated losses: These are undistributed profits or losses carried forward over the years. Disclose the retained earnings carried from previous years here.
 - 13.2 Current Year's Surplus/Loss: Disclose the current year's after tax profits.
- 14 Other Equity Accounts
 - 14.1 Statutory Reserve: Accumulated transfer of 20% of from prior years' profits
 - 14.2 Other Reserves: Reserves other than those specified here.
 - 14.3 Revaluation Reserve: These are revaluation surpluses/losses arising from revaluation of properties, equipment and financial instruments.
 - 14.4 Proposed Dividends: These are dividends that have been proposed by the Board but have not been ratified by the Annual General Meeting.
 - 14.5 Adjustments to Equity: These are any adjustments to account for subsidized funds and in-kind subsidies.

STATEMENT OF COMPREHENSIVE INCOME

- 1. Financial Income
The total value of all income earned from the provision of financial services. Total of Financial Income from Loan Portfolio (Line 2), Financial Income from Investments (Line 5) and Other Operating Income (Line 9)
- 2. Financial Income from Loan Portfolio
Income from interest, fees, commissions, and other fees earned on the loan portfolio. This includes not only interest paid in cash but also interest accrued but not yet paid. Total of Interest earned on the loan portfolio (Line 2.1) and Fees and Commission on the loan portfolio (Line 2.2)
 - 2.3 Interest on Loan Portfolio: Interest earned on the loan portfolio.
 - 2.2 Fees and Commissions on Loan Portfolio: Penalties, commissions, and

other fees earned on the loan portfolio.

3. **Financial Income from Investments**
Revenue from interest, dividends, and other payments generated by financial assets other than the loan portfolio, such as interest-bearing deposits. This may

Provision for Loan Losses: This is the non-cash expense calculated as a percentage of the

include net trading income (gains less losses) from securities and the recovery of any interest revenue that was previously written off.

34 Government Securities: This covers interest and discount earned on all Government Securities

32 Deposits and Balances with Banks and Other Financial Institutions : This includes all interest earned on placements with commercial banks and other financial institutions.

Note: Interest on placements with collapsed institutions should be suspended and not recognized as income.

33 Other Investments: These include any other investments including corporate bond, commercial paper and bearer bonds not covered in 3.1 above.

34 Other Operating Income: All other income from the provision of financial services, including transaction fees, premiums, membership fees, passbooks, smartcards etc.

4. Financial Expenses

The total value of all financial expenses incurred from operations. Total of Financial Expense on Funding Liabilities (Line 4.1), Dividends (4.4) and Other Financial Expenses (Line 4.5).

4.1 Financial Expense on Deposits and External Borrowings: Total of Interest and Fee Expense on Deposits (Line 4.2) and External Borrowings (Line 4.3)

4.2 Interest Expense on Deposits: Interest and fees incurred on all deposits taken by the licensed Sacco Society.

4.3 Cost of External Borrowings: Include interest and fees incurred on external borrowings and overdrafts.

4.4 Dividend Expense: Expense incurred on member shares

4.5 Other Financial Expenses: The sum of 'other fees and commissions' (line 4.5) and 'other expense' (line 4.6). These are other financial expenses related to provision of financial services.

4.6 Fees and Commissions expense: This includes all charges (fees) and commissions relating to account operations such as bank charges, ledger fees, cheque and money transfer commissions but excluding interest on overdrafts.

4.7 Other expenses: These are any other financial expenses not specified above arising from normal business operations.

5. Net Financial Income/Loss

The net value of earnings arising from financial services [i.e. Financial Income (Line 1) Less Financial Expenses (Line 4)].

6. Allowance for loan Loss

Also known as 'loan loss provision expense'. It is provision for Loan losses net of the value of delinquent Loans recovered. Provision for Loan losses (Line 6.1) Less Value of Loans Recovered (Line 6.2).

Provision for Loan Losses: This is the non-cash expense calculated as a percentage of the

portfolio report and is used to create or increase the Allowance for Loan Losses on the Balance Sheet.

Value of Loans Recovered: Total value of principal recovered on all loans previously written off. This includes principal on partially recovered loans and those recovered in full. Subsequent recoveries of loans previously written off decrease the amount of the Provision for Loan Losses (Line 6.1), and the net amount is booked as Allowance for Loan Losses on (Line 6).

7. Operating Expenses

The total value of all operating expenses which include, Personnel (line 7.1), Governance (line 7.2), Marketing (line 7.3) and Administrative Expenses (line 7.4), incurred in providing financial services.

7.1 Personnel Expenses: Includes total staff (permanent and casual) costs such as salaries, wages, uniforms, leave allowance, medical expenses, benefits and bonuses, as well as employment taxes. It also includes the cost of employee recruitment and initial orientation expenses.

7.2 Governance Expenses: These include the cost of travel, per diem, honoraria or meetings for board members, board committee expenses, member's education, Annual general meeting expenses and national or other co-operative representation dues.

7.3 Marketing Expenses: These include any expense related to marketing or promotion such as advertising, publicity campaigns, Ushirika day celebrations etc.

7.4 Depreciation and Amortisation Charges: These are non-cash expenses that reduce the value of an asset over time due to wear and tear or obsolescence.

7.5 Administrative Expenses: These include all other operating expenses not included in the previous four categories such as electricity, water, rent, supplies, transportation, security, equipment repair and maintenance, Audit fees, supervisory and recoverable expenses, communications and consulting fees which are necessary for conducting Sacco business. It may also include certain taxes related to administration, such as a value-added tax. These expense categories may be listed as separate line items as appropriate.

8. Net Operating Income: These are net earnings from the provision of financial services. Net Financial Income (Line 5) less allowances for loan losses (Line 6) less operating Expenses (Line 7).

9. Net Non-Operating Income/(Expenses)

The net earnings from products and services not directly related to core operations of Sacco societies derived from the total income (line 8.1) less total expenses (line 8.2). Sacco societies' should disclose large material amounts of

non-operating revenue separately by creating accounts under “Non-Operating Income” (Line 8.1) or “Non-Operating Expense” (Line 8.2)

91 Non operating Income: All income not directly related to core Sacco business, such as revenue from business development services, training, consulting services, sale of merchandise and others. It also

Provision for Loan Losses: This is the non-cash expense calculated as a percentage of the

includes any exceptional gains and revenues. Large or relevant non-operating revenue categories should be listed as separate line items as appropriate.

Note: This account does not include grants and donations.

- 92 Non-Operating Expenses : All expenses not directly related to the core Sacco business, such as the cost of providing business development services or training. This account also includes any exceptional losses and expenses. Large or relevant expense categories should be listed as separate line items as appropriate.

10 Net Income (Before Taxes and Donations)

All net earnings from the Sacco's operations before the inclusion of taxes and donations [Total of Net Operating Income (Line 8) and Net Non-Operating Income (Expenses) (Line 9)]

11 . T a x e s

Includes all taxes paid on Net Income or other measure of profit as defined by the Kenya Revenue Authority.

11.1 Current Tax: Enter tax charged for the current accounting period.

11.2 Deferred Tax: Enter the deferred tax charge

12. Net Income (After Taxes and Before Donations)

All net earnings from the Sacco's operations, net of taxes and before the inclusion of donations (Net Income (Before Taxes and Donations) (Line 34) less Taxes (Line 35))

13 . D o n a t i o n s

Value of all donations recognized as revenue during the period, whether restricted or not. (Total of Donations for Loan Capital (Line 40) and Donations for Operating Expenses (Line 41))

13.1 Donations for Loan Capital: Value of all donations used to fund the loan portfolio.

13.2 Donations for Operating Expenses: Value of all donations used to pay for operations other than funding the loan portfolio. These operations include paying personnel and administrative expenses and purchasing property and equipment.

14 . Net Income (After Taxes and Donations)

All net earnings from the Sacco's operations, net of taxes, and after the inclusion of donations [i.e. Total of Net Income (After Taxes and Before Donations, Line 12) and Donations, Line 13)]

OTHER DISCLOSURES

1. NON-PERFORMING LOANS AND ADVANCES

Gross Non-performing loans: Enter the gross aggregate of substandard, doubtful and loss accounts inclusive of interest suspended.

Interest in Suspense: Enter the aggregate of interest in suspense for substandard, doubtful and loss accounts.

Total Non-performing Loans Net of Interest in Suspense: Enter the difference between (1.1) and (1.2) above.

Allowance for loan losses: Enter the aggregate of loan loss provisions made for substandard, doubtful and loss accounts computed as per the regulations on classification of Assets and Provisioning.

Net Non-Performing Loans: Enter the difference between items (1.3-1.4) above.

2. INSIDER LOANS, ADVANCES AND OTHER FACILITIES

2.1 Directors: On-balance sheet and Off-balance sheet

These are loans and advances including off-balance sheet items to Directors.

2.2 Employees: Enter loans and advances to employees.

2.3 Total Insider Loans, Advances and Other Facilities: Enter the aggregate of 2.1 and 2.2

3. OFF-BALANCE SHEET ITEMS

3.1 Guarantees and Commitments: Enter Guarantees, Commitments, etc. This should exclude off-balance sheet items to insiders.

3.2 Other Contingent Items: Enter other items not covered under 3.1 above.

3.3 Total Contingent Items: Enter aggregate of items 3.1 and 3.2 above

4. CAPITAL STRENGTH

The following capital items should be computed as required in the Capital Adequacy Regulations.

- 4.1 Core Capital
- 4.2 Institutional Capital
- 4.3 Core Capital/Total Assets
- 4.4 Minimum Statutory Ratio
- 4.5 Excess / Deficiency (4.3 - 4.4)
- 4.6 Institutional capital/Total Assets
- 4.7 Minimum Statutory Ration
- 4.8 Excess / Deficiency (4.6 - 4.7)
- 4.9 Core capital/Total Deposit Liabilities
- 4.10 Minimum Statutory Ratio
- 4.11 Excess / Deficiency (4.9-4.10)

5. LIQUIDITY

The liquidity ratio should be computed as prescribed in the regulations in liquidity and asset liability management.

THIRD SCHEDULE

r. 65(2)

CODE OF CONDUCT

1. This Code of conduct is applicable to directors, Chief Executive Officers and the Management of Sacco Societies registered and licensed under the Act. The Board of Directors shall ensure that all officers of the Sacco Society are aware and adhere to the prescribed Code of Conduct. Applicability.

2. Directors, Chief Executive Officers and Management should not engage directly or indirectly in any business activity that competes or conflicts with the Sacco's interest, which, among other will include the following: Conflict of interest.

a) Outside financial interest:

- i. Where a director, chief executive officers or senior management staff has a financial interest in a customer whether as a sole proprietor, shareholder, creditor or debtor, such an interest must be disclosed immediately. Thereafter, the affected officer shall not be directly involved in the Sacco dealing with the members so long as the interest continues to exist.
 - ii. The above restriction does not apply in cases where employees are holding public quoted securities unless the management views the interest to be material, and that the financial interest is considered likely to impair the objectivity of the member of staff concerned. For the purpose of code of conduct, the holding of five percent or more of the voting share of a publicly quoted company would be regarded as material.
- b) It will be a conflict of interest if a Chief Executive Officer or employee conducts business other than that of the Sacco Society during official working hours.
- c) An employee is not permitted to engage in any part time employment unless with express permission of the management. Such approval shall only be granted where the interest of the Sacco Society will not be in jeopardy.
- d) An employee should not serve as a director of any other institution without approval from the board of directors. Employees who hold such directorships without such approval must seek approval immediately, if they wish to remain as directors of those institutions. However, employees may act as directors of non profit public services entities such as

religious, educational, cultural, social welfare and philanthropic or charitable institutions subject to policy guidelines of those institutions.

3. Misuse of position ₱

a) directors, chief executive officers and employees shall not use the Sacco's name or facilities for personal advantage, be it in political or economic transactions.

b) directors, chief executive officers and employees shall not solicit or otherwise accept inducements either directly or indirectly whether in cash or in kind in order to provide any favours to a member in the provision of loans, acceptance of deposits or any other conduct of the business of the Sacco to which they are entrusted jointly or individually.

c) confidentiality of relations and dealings between the Sacco Society and members is paramount. Consequently, directors, chief executive officers and employees must take precaution to protect the confidentiality of member informational and transactions.

d) Business and financial information about any member may be used or made available to third parties only with prior written consent of the member in accordance with the arrangements for the proper interchange of information between the institutions about credit risks, or when disclosure is required by law.

e) All business dealing on behalf of the Sacco with current or other employees and with those who may have cause to rely upon the Sacco, should be conducted fairly and equitably, Employees and Directors must not be influenced by friendship or association, either in meeting a members requirements, or in recommending that they be met. Such decisions must be made on a strictly arm-length business basis. All preferential transactions with insiders or related interest should be avoided. If transacted, such dealings should be in full compliance with the law, judged on normal business criteria basis and fully documented and authorised by the Board of Directors or any other independent party.

4. A Sacco Society shall not grant or permit to be outstanding any unsecured advances in respect of any of its employees or their associates.

5. A Sacco Society shall not grant or permit to be outstanding any advances loans or credit facilities which are unsecured or advances, loans or credit facilities which are not fully secured to any of its officers, significant members or their associates.

6. A Sacco Society shall not grant or permit to be outstanding any advances loans or credit facility to any of its directors or other person participating in the general management of the Sacco unless it is—

- (a) approved by the board of directors of the Sacco upon being satisfied that it is viable; and

(d) Any director of a Sacco Society who defaults in repayment of any advance or loan made to him by the Sacco Society for

- (b) made in the normal course of business and on terms similar to those offered to ordinary members. The Sacco shall notify the Authority of every such approval within fifteen days of the granting of the approval.

7. No Sacco Society shall grant or permit to be outstanding any advance, loan or credit facility or give any financial guarantee or incur any other liabilities to or in favour of, or on behalf of, any associate or any of the employees, significant members, audit committee or directors in excess of fifty percent of the total Share Capital and Savings.

8. No Sacco Society shall grant or permit to be outstanding any advance, loan or credit facility or give any financial guarantee or incur any other liabilities or to guarantee of, or on behalf of its associates or any of the employees, significant members, audit committee or directors amounting in the aggregate to more than one hundred percent of the institutional capital of the Sacco.

9. No Sacco Society shall grant advance or credit facility or give guarantee or incur any liability or enter into any contract or transaction of conduct its business or part thereof in a fraudulent or reckless manner or otherwise than in compliance with the Sacco Act and these Regulations.

10. When a Sacco contravenes any of the provisions of the Sacco Act or is not in compliance with regulations made there under;

- (a) all officers of the Sacco shall be liable jointly or severally to indemnify the Sacco against any loss arising in respect of the contravention of the Act and regulations.
- (b) in the case of violation of the Regulations on an advance, loan or credit facility to a person other than directors of the Sacco Society and including the directors an officer shall be so liable, provided he or she proves that, through no act - or omission on his or her part, he or she was not clearly aware that the contravention was taking place and further show measures taken to avoid the contravention.
- (c) the Authority may direct the suspension of any officer of the Sacco Society who sanctioned the advance, loan or credit facility if the officer violates the act or regulations on advance, loan or credit facility to a director of a Sacco Society. and in addition recommend any legal action deemed

fit against the said officers. The Sacco shall comply with every direction of the Authority under this paragraph immediately.

(d) Any director of a Sacco Society who defaults in repayment of any advance or loan made to him by the Sacco Society for

three consecutive months or three to five instalments shall forthwith stand disqualified from holding office and be liable to pay the outstanding amount.

11. A Sacco Society which fails to comply with any direction of the Authority or permits a disqualified director to continue holding office shall be guilty of an offence.

Penalties for
Violation of section.

Dated the 11th June, 2010.

JOSEPH W.N. NYAGAH,
Minister for Co-operative Development and Marketing.

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(d) Any director of a Sacco Society who defaults in repayment of any advance or loan made to him by the Sacco Society for