

**NO. 14 OF 2008**

**THE SACCO SOCIETIES ACT**

SUBSIDIARY LEGISLATION

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*List of Subsidiary Legislation*

	<i>Page</i>
1. The Sacco Societies (Deposit-taking Sacco Business) Regulations.....	3
2. The Sacco Societies Deposit Levy Order.....	61
3. The Sacco Societies (Non-Deposit-Taking Business) Regulations.....	65
4. The Sacco Societies (Specified Non-Deposit Taking) (Levy) Order, 2023.....	137

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**THE SACCO SOCIETIES (DEPOSIT-TAKING SACCO BUSINESS) REGULATIONS**

## ARRANGEMENT OF REGULATIONS

## PART I – PRELIMINARY

*Regulation*

1. Citation
2. Purpose
3. Interpretation

## PART II – LICENSING

4. Licensing requirements
5. Renewal of licence
6. Revocation of a licence
7. Transfer or assignment of licence
8. Publication of licensed Sacco societies

## PART III – CAPITAL ADEQUACY

9. Minimum capital requirements
10. Criteria for higher minimum capital ratios
11. Capital adequacy return
12. Sanctions for non-compliance

## PART IV – LIQUIDITY AND ASSET LIABILITY MANAGEMENT

13. Liquidity and asset liability management
14. Liquidity statement return
15. Prohibited business
16. Opening of a branch
17. Operating an agency or outlet
18. Relocating of a place of business
19. Closing a place of business
20. Sanctions

## PART V – SHARES, SAVINGS AND DEPOSITS

21. Terms of member shares
22. Non-withdrawable deposits
23. Withdrawable deposits
24. Deposits return
25. Record keeping
26. Savings disclosure requirements
27. Dormant accounts

## PART VI – CREDIT MANAGEMENT

28. General lending requirements
29. Lending disclosures requirements
30. Interest rates, fees and penalties
31. Limit on interest recoverable
32. Security for loans
33. Inter Sacco borrowings
34. Loan product approval
35. External borrowing and limits on loans

[Subsidiary]

36. Insider lending
37. Foreclosed assets
38. Credit collection practices

PART VII – RISK CLASSIFICATION OF ASSETS AND PROVISIONING

39. Classification requirements
40. Computing delinquency
41. Basis of classification
42. Accrued interest
43. Treatment of collateral
44. Loan loss allowances
45. Loan write-off
46. Risk classification return

PART VIII – INVESTMENTS

47. Investment policy
48. Limits on property, equipment financial assets
49. Compliance with investment policy
50. Restricted investment transactions
51. Investments return

PART IX – FINANCIAL PERFORMANCE REPORTING

52. Financial return
53. Internal auditor
54. Appointment of external auditor
55. Submission of audited accounts
56. Responsibilities of external auditor to the Authority
57. Establishment of the audit committee
58. Sanctions

PART X – GOVERNANCE OF SACCO SOCIETIES

59. Membership responsibility
60. Directors' duties and responsibilities
61. Director not to be remunerated
62. Limitation
63. Appointment of the chief executive officer
64. Responsibilities of the chief executive officer
65. Code of Conduct

PART XI – REGULATION AND SUPERVISION

66. Inspection of Sacco societies
67. Enforcement actions
68. Administrative sanctions
69. Memorandum of understanding and agreement
70. Letter of understanding and agreement
71. The Cease and Desist Order
72. Prohibitions and removal of officers
73. Statutory management
74. Appointment of a statutory manager
75. Financial penalties

PART XII – INFORMATION PRESERVATION AND BUSINESS CONTINUITY

- 76. Information preservation
- 77. Vital records
- 78. Disaster preparedness and business continuity

PART XIII – DEPOSIT GUARANTEE FUND

- 79. Board composition
- 80. Scope and coverage
- 81. Premium
- 82. Depositor compensation

PART XIV – MISCELLANEOUS PROVISIONS

- 83. Amalgamations
- 84. Transitional provisions

SCHEDULES

- FIRST SCHEDULE — APPLICATION FOR LICENCE
- SECOND SCHEDULE — CAPITAL ADEQUACY RETURN
- CODE OF CONDUCT



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**THE SACCO SOCIETIES (DEPOSIT-TAKING SACCO BUSINESS) REGULATIONS**

[Legal Notice 95 of 2010]

## PART I – PRELIMINARY

**1. Citation**

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

**2. Purpose**

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

**3. Interpretation**

In these Regulations, unless the context otherwise requires—

"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 Co-operative Societies Act (Cap. 490);

"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;

"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;

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[Subsidiary]

"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 (Cap. 490);

"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 percent 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. Licensing requirements

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

(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 (Cap. 490);
- (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.

(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 onsite 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 licence to the applicant Sacco Society upon payment of licence fee of fifty thousand shillings for head office; and twenty thousand shillings for each branch.

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

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

## 5. Renewal of licence

(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.

(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 licences.

## 6. Revocation of a licence

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

(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 licence 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 licence, a deposit-taking Sacco Society shall not convert into a non-deposit-taking Sacco Society.

## 7. Transfer or assignment of licence

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

## 8. Publication of licensed Sacco societies

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

(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. Minimum capital requirements

A Sacco Society shall at all times maintain—

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[Subsidiary]

- (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. Criteria for higher minimum capital ratios

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

- (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. Capital adequacy return

(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.

(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. Sanctions for non-compliance

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. Liquidity and asset liability management

(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—

- (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 (Cap. 488) 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. Liquidity statement return

(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.

(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. Prohibited business

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

- (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. Opening of a branch

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

[Subsidiary]

(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. Operating an agency or outlet**

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

(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. Relocating of a place of business**

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

(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. Closing a place of business**

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

- (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 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. Sanctions

A person who contravenes the regulations on place of 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. Terms of member shares

- (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.
- (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. Non-withdrawable deposits

- (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.
- (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.

## 23. Withdrawable deposits

- (1) A Sacco Society shall establish a savings policy with minimum prescribed terms and conditions of opening, operating and 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. Deposits return

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.

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[Subsidiary]

## 25. Record keeping

(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.

(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. Savings disclosure requirements

(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.

(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 member.

## 27. Dormant accounts

(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.

(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, 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. General lending requirements

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

(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. Lending disclosures requirements**

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. Interest rates, fees and penalties**

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

(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. Limit on interest recoverable**

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.

### **32. Security for loans**

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

(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.

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### 33. Inter Sacco borrowings

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—

- (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. Loan product approval

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

(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. External borrowing and limits on loans

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

(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 exceeds ten percent of the Sacco Society's core capital.

### 36. Insider lending

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

(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 approval.

### 37. Foreclosed assets

(1) Where a Sacco Society holds an asset in satisfaction of a debt, disposal of such asset shall be done within one year, failure to 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. Credit collection practices**

(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.

(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—
  - (i) the 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.

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[Subsidiary]

PART VII – RISK CLASSIFICATION OF ASSETS AND PROVISIONING

**39. Classification requirements**

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

- (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. Computing delinquency**

(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.

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

**41. Basis of classification**

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

(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. Accrued interest**

(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.

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

**43. Treatment of collateral**

(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.

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

**44. Loan loss allowances**

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

- (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. Loan write-off**

(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.

(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. Risk classification return**

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.

## PART VIII – INVESTMENTS

**47. Investment policy**

(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—

- (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;

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[Subsidiary]

- (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. Limits on property, equipment financial assets**

(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:

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 investments mean investments in government securities, shares and stocks, deposits in institutions licensed under the banking Act, and licensed Sacco societies.

#### **49. Compliance with investment policy**

(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.

(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. Restricted investment transactions**

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

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

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.

## PART IX – FINANCIAL PERFORMANCE REPORTING

**52. Financial return**

(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.

(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. Internal auditor**

(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.

(2) The person responsible for the internal audit function shall be a fully qualified accountant under the Accountants Act (Cap. 531).

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

**54. Appointment of external auditor**

(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.

(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 Cabinet Secretary within fourteen days, and the decision of the Cabinet Secretary 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. Submission of audited accounts**

(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.

(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;

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[Subsidiary]

- (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. Responsibilities of external auditor to the Authority**

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

- (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 to 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. Establishment of the audit committee**

(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.

(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:

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, selfdealing 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. Sanctions

A person who contravenes the provisions of this Part 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

### 59. Membership responsibility

(1) The supreme authority of a Sacco Society shall be vested in the members who shall jointly and severally protect, preserve and 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. Directors' duties and responsibilities

(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 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.

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[Subsidiary]

(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. Director not to be remunerated**

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.

#### **62. Limitation**

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

#### **63. Appointment of the chief executive officer**

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

(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. Responsibilities of the chief executive officer**

(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—

- (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, bylaws and any other applicable laws.

(2) The chief executive officer shall ensure that the board of directors is frequently and adequately apprised 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. Code of Conduct

(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 (Cap. 185B).

(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. Inspection of Sacco societies

(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.

(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.

[Subsidiary]

(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.

### **67. Enforcement actions**

(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. Administrative sanctions**

(1) In deciding which administrative action to be taken, the 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
- (f) 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
- (f) prohibition from declaring or paying bonuses, salary incentives, severance packages, management fees or reimbursement of expenses to directors or officers.

#### **69. Memorandum of understanding and agreement**

(1) Where a Sacco Society has demonstrated a disregard for safe, sound business practices or a lack of 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.

(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. Letter of understanding and agreement**

(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.

(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. The Cease and Desist Order**

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

- (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. Prohibitions and removal of officers**

(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.

(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.

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[Subsidiary]

(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 Cabinet Secretary.

### **73. Statutory management**

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

- (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 members 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. Appointment of a statutory manager**

(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.

(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. Financial penalties

(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—

- (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. Information preservation

(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.

(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.

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[Subsidiary]

### 77. Vital records

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.

### 78. Disaster preparedness and business continuity

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—

- (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 the Sacco Society in case of disaster;
- (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. Board composition

(1) In compliance with section 56(1)(f) of the Act, the Authority shall be responsible for co-ordinating all licensed Sacco societies in nominating four persons to be appointed by the Cabinet Secretary 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.

(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. Scope and coverage

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

(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. Premium

(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.

(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 percent of the proceeds accruing from the investment of the fund in institutions prescribed by the Act and the other fifty percent of the proceeds may be used to defray operational expenses.

(5) A Sacco Society which contravenes this regulation—

- (a) shall have its licence revoked as provided for under section 27 of the Act and shall only have the licence 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. Depositor compensation

(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.

(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. Amalgamations

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

(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.

[Subsidiary]

**84. Transitional provisions**

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

- (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 percent by the fourth year;
- (e) have core capital of not less than five percent of the total deposit liabilities which shall graduate to eight per cent 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

APPLICATION FOR LICENCE

(r. 4(2)(a))

FORM 1:

SASRA 1/001

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

S/No.	Name of Branch	Year Established	No. of Years in Operation
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



Sacco Societies

[Subsidiary]

1. .... from ..... to .....
2. .... from ..... to .....
3. .... from ..... to .....
4. .... from ..... to .....

7. Details of Capital

- (a) Paid-up value .....
- (b) Core capital .....
- (c) Institutional capital .....

8. Particulars of Officers:

a) Directors

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

b) Senior Management

<i>Present &amp; Former Names</i>	<i>Designation</i>	<i>DOB</i>	<i>Academic/ YO Professional Qualifications</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? ..... If so, give particulars .....

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 .....

.....

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) .....

[Subsidiary]

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: \_\_\_\_\_ (r. 4(2) (a))  
 SASRA 1/002  
 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

Name of Employer/ Business	Address	Period	Position Held	Dates From	To	Reasons for Leaving
-------------------------------	---------	--------	---------------	------------	----	---------------------

4. DESCRIPTION OF YOUR PAST AND CURRENT ACTIVITIES

4.1 SHAREHOLDING (DIRECTLY OWNED OR THROUGH NOMINEES)

Name of Institution	Date of Incorporation	Amount of Shareholding	% of	Past Share Holding A	B	Remarks
---------------------	-----------------------	------------------------	------	----------------------	---	---------

Key

A: Refers to date of closure or surrender of shares

Sacco Societies

[Subsidiary]

B: Refers to reasons for closure or surrender

**4.2 DIRECTORSHIP**

Name of Institution	Date of Incorporation	Executive or Non-Executive	Position Held in case of non Executive	Past directorship C	D	Remarks
---------------------	-----------------------	----------------------------	--	---------------------	---	---------

Key

C: Refers to date of retirement

D: Refers to reasons for retirement or resignation

**4.3 PROFESSIONAL BODIES**

Name of Body	Member No.	Position	Past E	F	Remarks
--------------	------------	----------	--------	---	---------

Key

E: Refers to date of retirement

F: Refers to reasons for retirement or resignation

**4.4 SOCIAL CLUBS**

Club Name	Member No.	Position Held Past Club	G	H	Remarks
-----------	------------	-------------------------	---	---	---------

Key

G: Refers to date of retirement

H: Refers to reasons for retirement or resignation

**4.5 BORROWINGS**

Name of Borrower	Lending Institution	Type of Facility	Date of Offer	Security Offered	Value of Security'	Current Out-standing Balance	Remarks
------------------	---------------------	------------------	---------------	------------------	--------------------	------------------------------	---------

\* 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

.....

**5.2** 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 .....

**5.3** 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 .....

[Subsidiary]

.....  
.....

**5.4** 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

.....  
.....

**5.5** 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 .....

**5.6** 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 .....

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

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

.....  
.....

**5.9** 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 particulars .....

.....  
.....

**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.

Name: .....

Signed: .....

Dated at ..... this ..... Day of ..... 20 .....

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: \_\_\_\_\_ (r. 4(7))

SASRA 1/003  
APPLICATION FORM FOR A LICENCE

LICENCE No. ....

[Subsidiary]

**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**

**CAPITAL ADEQUACY RETURN**  
(r. 11(1))

FORM 1  
SASRA 2/001

**CAPITAL ADEQUACY RETURN**

Name of Sacco Society:

CS  
NO.....

Financial Year:

Start Date:

End Date:

1.	CAPITAL COMPONENTS'000'	AMOUNT (KSh.)
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	

Sacco Societies

[Subsidiary]

1.1.9	Investments in Subsidiary and Equity instruments of Other Institutions	
1.1.10	Other Deductions	
1.1.11	Total Deductions (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	Exces0Deficiency) (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 Office

..... Sign.....

Date: .....

Name of Countersigning Officer

COMPLETION INSTRUCTIONS ON CAPITAL ADEQUACY RETURN

1. CAPITAL COMPONENTS

1.1 CORE CAPITAL

1.1.1 Share Capital

---

[Subsidiary]

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

### 2.1. Cash

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

### 2.2 Government Securities

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

---



**2.3 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.

**2.4 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 (r. 14(2))

SASRA 2/001  
LIQUIDITY STATEMENT

Sacco Society:

CS  
NO .....

Financial Year:

Start Date:

End Date:

[Subsidiary]

1	Notes and Coins	KSh. '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 the following month

AUTHORIZATION

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

.....Sign .....Date:.....

Name of Authorizing Office

.....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.

[Subsidiary]

**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 15<sup>th</sup> of the following month.

FORM 3 (r. (24))

SASRA 2/003

STATEMENT OF DEPOSIT RETURN

Name of Sacco Society:

CS No.

Financial Year:

Start Date:

End Date:

Sacco Societies

[Subsidiary]

No.	Range	* Type of Deposit	No. of A/Cs	Amount KShs '000'
1	Less than 50,000	Non withdrawable Savings Term		
	2 50,000 to 100,000	Non withdrawable Savings Term		
3	100,000 to 300,000	Non withdrawable Savings Term		
4	300,000 to 1,000,000	Non withdrawable Savings Term		
5	Over 1,000,000	Non withdrawable 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 Office

.....Sign.....

Date:.....

Name of Countersigning Officer

FORM 4 ( r.46)

SASRA 2/004

**RISK CLASSIFICATION OF ASSETS AND PROVISIONING**

Name of Sacco Society: **CS/No.**

Financial Year:

Start Date:

End Date:

**PORTFOLIO AGEING REPORT**

No.	Classification	A No. of A/Cs	B Outstanding Loan Portfolio (KSh.)	C Required Provision	D Required Provision Amount (KSh.)
1	Performing			1%	
2	Watch			5%	
3	Substandard			25%	
4	Doubtful			50%	
5	Loss			100%	
	<i>Sub-Total</i>				

[Subsidiary]

	Rescheduled/Renegotiated Loans	
6	Performing	1%
7	Watch	5%
8	Substandard	25%
9	Doubtful	50%
10	Loss	100%
	Sub-Total	
	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 Office

.....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.

Sacco Societies

[Subsidiary]

FORM 5 ( r.51)  
 SASRA 2/005  
 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.

.....Sign .....Date:.....

Name of Authorizing Office

.....Sign.....

Date:.....

Name of Countersigning Officer

FORM 6 ( r. 52 (3))

SASRA 2/006

STATEMENT OF FINANCIAL POSITION

Sacco Society:

Financial Year:

Start Date:

End Date:

Period ....	Period ....
Current Year	Prior Year

## Sacco Societies

[Subsidiary]

Ref No.		KSh. '000'	KSh. '000'
	<b>ASSETS</b>		
1	Cash and Cash Equivalent	0	0
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
	<b>LIABILITIES</b>		
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
	<b>EQUITY</b>		
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		



Sacco Societies

[Subsidiary]

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 Office

.....Sign.....

Date:.....

Name of Countersigning Officer

FORM 7 ( r. 52 (3))

SASRA 2/007

STATEMENT OF COMPREHENSIVE INCOME

Name of Sacco Society:

Financial Year:

Start Date:

End Date:

	INCOME STATEMENT	Period .... 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
3.1	Government Securities		
3.2	Deposit and Balances with Banks and Other Financial Inst.		
3.3	Other Investments		
3.4	Other Operating Incom		
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 expens		
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

Sacco Societies

[Subsidiary]			
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		
9	Net Non-Operating Income/ (Expense)		
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)		

Note: This return should be received within 15 days after end of the month or 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 Office

.....Sign.....

Date:.....

Name of Countersigning Officer

FORM 8 ( r. 52 (3))

SASRA 2/008

OTHER DISCLOSURES

Sacco Society:

Financial Year:

Start Date:

End Date:

OTHER DISCLOSURES

31st Dec	31st Dec Prior
Current Year	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

Sacco Societies

[Subsidiary]

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		
3.4	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 Office

[Subsidiary]

..... 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

1.1 Cash in hand: Both local and foreign notes and coins held in the tills and vaults.

1.2 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

4.1 Gross Loan Portfolio: These are loans and advances.

**4.2 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:**

**5.1 Tax Recoverable:** This is tax that is recoverable as a result of overpayment of tax in the previous periods.

**5.2 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

**5.3 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**

**10.1 Tax Payable:** This relates to tax liability computed but not yet paid.

**10.2 Dividends Payable:** These are dividends that have been declared but not yet paid.

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[Subsidiary]

**10.3** Deferred Tax Liability: These are taxes payable in future periods in respect of taxable temporary differences.

**10.4** Retirement Benefits Liability: These are the retirement benefits liability as accounted for under IAS 19.

**10.5** Other Liabilities: These include all other liabilities due not specified elsewhere.

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

**3.4 Government Securities:** This covers interest and discount earned on all Government Securities

**3.2 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.

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

**3.4 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 value of the loan portfolio that is at risk of default. This value is calculated in 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

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[Subsidiary]

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)

**9.1 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 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.

**9.2 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. Taxes

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.** Donations

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

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 [Subsidiary]

- 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.

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 THIRD SCHEDULE

[r. 65(2)]

## CODE OF CONDUCT

## 1. Applicability

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.

## 2. Conflict of interest

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—

- (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 information 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
- (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.

[Subsidiary]

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 thereunder—

- (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 recommends 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. Penalties for violation of section

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.

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**THE SACCO SOCIETIES DEPOSIT LEVY ORDER**

ARRANGEMENT OF SECTIONS

1. Citation
2. Payment of annual levy
3. Deposit levy payable by Sacco Societies on the year of first issuance of a deposit-taking licence
4. *[Deleted by L.N. 51/2018, o. 3.]*
5. Revocation of L.N. 208/2010

SCHEDULES

DEPOSIT LEVY PAYABLE

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**THE SACCO SOCIETIES DEPOSIT LEVY ORDER**

[Legal Notice 188 of 2011, Legal Notice 51 of 2018]

**1. Citation**

This Order may be cited as the Sacco Societies Deposit Levy Order and shall come into operation on the 31st December, 2011.

**2. Payment of annual levy**

(1) Subject to a maximum levy of ten million shillings per annum, a deposit-taking Sacco Society shall pay an annual levy (hereinafter called the deposit levy payable) at the rate set out in the schedule based on the total deposits held by the society as indicated in the last audited financial statements of the society.

(2) Upon issuance of a deposit-taking licence, the Authority shall assess the Sacco Society for purposes of this Order.

(3) The deposit levy payable shall become due and payable not later than thirty (30) days after assessment of the same by the Authority, and service of an assessment notice on the Sacco Society.

[L.N. 51/2018, o. 2.]

**3. Deposit levy payable by Sacco Societies on the year of first issuance of a deposit-taking licence**

The deposit levy payable by Sacco Societies on the year of first issuance of a deposit-taking licence shall be the equivalent of the pro-rated amount of the deposit levy payable with effect from the next month after the issuance of the licence.

**4.**

[Deleted by L.N. 51/2018, o. 3.]

**5. Revocation of L.N. 208/2010**

The Sacco Societies Deposit Levy Order, No. 208 of 2010 is revoked.

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**SCHEDULE**

[para 2(1)]

**DEPOSIT LEVY PAYABLE**

<b>Rate of deposit levy payable in percentage</b>	<b>Period of imposition of deposit levy payable in percentage</b>
0.125%	From January, 2018 to December, 2018.
0.15%	From January, 2019 to December, 2021.
0.175%	From January 2022,

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**THE SACCO SOCIETIES (NON-DEPOSIT-TAKING BUSINESS) REGULATIONS**

## ARRANGEMENT OF REGULATIONS

## PART I – PRELIMINARY

*Regulation*

1. Citation and commencement
2. Interpretation
3. Purpose
4. Specified non-deposit-taking business

## PART II – AUTHORISATION

5. Authorisation requirements
6. Publication of list of specified non-deposit-taking business
7. Protection of name
8. Failure to obtain authorisation
9. Renewal and validity of authorisation
10. Revoation of authorisation

## PART III – CAPITAL ADEQUACY

11. Minimum capital requirements
12. Sanctions for non-compliance
13. Capital adequacy returns

## PART IV – LIQUIDITY MANAGEMENT

14. Liquidity management
15. Liquidity statement returns
16. Prohited business

## PART V – PLACES OF BUSINESS

17. Opening of a place of business
18. Relocation of place of business
19. Closing a place of business
20. Guidelines and directives on place

## PART VI – MEMBERS' SHARES AND DEPOSITS

21. Terms of member shares
22. Restriction on dealing in shares
23. Non-withdrawable deposit account
24. Returns of non-withdrawable deposits
25. Record-keeping
26. Non-withdrawable deposits disclosure requirements
27. Dormant accounts

## PART VII – CREDIT MANAGEMENT

28. General lending requirements
29. Sectoral loan classification returns
30. Lending disclosure requirements
31. Interest rates, fees and penalties
32. Security for loans
33. Inter-Sacco borrowing
34. Approval of new products and services

[Subsidiary]

35. External borrowing and limits on loans
36. Insider lending and insider dealing
37. Foreclosed assets
38. Credit management and collection practices

PART VIII – RISK CLASSIFICATION OF ASSETS AND PROVISIONING

39. Classification requirements
40. Delinquency and basis of classification
41. Treatment of collateral
42. Loan loss allowances
43. Loan write-offs
44. Risk classification returns

PART IX – INVESTMENTS

45. Investment policy
46. Limits on property equipment and financial assets
47. Due diligence and approval of proposed investments
48. Restricted investment transactions
49. Investment returns

PART X – FINANCIAL PERFORMANCE REPORTING

50. Financial returns
51. Distribution of earnings to members
52. Internal auditors
53. Specific duties of internal auditors and audit functions
54. Appointment of external auditors
55. Restriction on removal of internal or external auditors
56. Submission of audited financial statements
57. Responsibilities of external auditors to the Authority
58. Role of the supervisory committee
59. Sanctions

PART XI – GOVERNANCE OF SACCO SOCIETIES

60. Membership responsibilities
61. Directors' duties and responsibilities
62. Directors not to be remunerated
63. Limitation
64. Appointment of chief executive officers
65. Responsibilities of chief executive officers
66. Code of Conduct
67. Directorships and subsidiaries

PART XII – CONSUMER (MEMBER) PROTECTION

68. Access to financial products
69. Shares and non-withdrawal deposits disclosures
70. Members' account confidentiality
71. Lending terms and legal obligations
72. Dividends on shares and interest on non-withdrawable deposits
73. Disclosures in advertisements
74. Fair debt-collection practices
75. Member education and empowerment
76. Complaint handling procedures

- 77. Complaints register
- 78. Appeals and referrals

PART XIII – REGULATION AND SUPERVISION

- 79. Inspections
- 80. Enforcement action
- 81. Administrative sanctions
- 82. Cease and desist orders
- 83. Prohibition and removal of officers
- 84. Statutory management
- 85. Appointment of statutory managers
- 86. Assessment of financial penalties
- 87. Financial penalties for failure to submit reports, returns, etc.

PART XIV – INFORMATION SECURITY,  
PRESERVATION AND BUSINESS CONTINUITY

- 88. Information preservation and management system
- 89. Due diligence on third-party service providers
- 90. Critical information and vital records
- 91. Disaster preparedness and business continuity

PART XV – MISCELLANEOUS PROVISIONS

- 92. Preparation, etc. of Sacco societies' performance reports
- 93. Amalgamations and divisions
- 94. Electronic submission of returns and information and use of ICT
- 95. Unauthorized access or improper use or interference of electronic filing system established by the Authority or Sacco society
- 96. Transitional provisions and provisional authorisation

SCHEDULES

- FIRST SCHEDULE —                      FORMS
- SECOND SCHEDULE —                    OTHER FORMS
- CODE OF CONDUCT



## THE SACCO SOCIETIES (NON-DEPOSIT-TAKING BUSINESS) REGULATIONS

[Legal Notice 82 of 2020, Legal Notice 215 of 2020]

### PART I – PRELIMINARY

#### 1. Citation and commencement

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

(2) These Regulations shall come into operation on the 1st January, 2021.

[L.N. 215/2020, r. 2.]

#### 2. Interpretation

In these Regulations, unless the context otherwise permits—

"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" is the consolidation of assets, liabilities and equity of two or more Sacco societies to form a new entity referred to as the amalgamated society;

"Committee" has the meaning assigned to it in the Co-operative Societies Act (Cap. 490);

"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;

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

"deposit-taking business" has the meaning assigned to it in the Act;

"equity" means is 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 that 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 society, to the Authority or at the discretion of the Committee, to creditors to inform them of the financial condition and the results of operations of the Sacco society;

"illiquid assets" means 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;

"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-deposit taking business" means Sacco business, other than deposit-taking business;

"non-earning assets" means those assets that do not generate income;

"non-withdrawable deposit-taking SACCO" means a Sacco society whose Sacco business, is strictly limited to the receipt of non-withdrawable deposits from members and which deposits are not available for withdrawal for the duration of the membership of a member in a Sacco society, and which deposits may be used as collateral against borrowings and domestic money transfer services only;

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[Subsidiary]

"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 he may be called or described, who carries out or is empowered to carry out functions relating to the overall direction of a non-withdraw-able deposit taking Sacco society or takes part in the general management thereof;

"place of business" has the meaning assigned to it in the Act;

"provision for Loan Losses" means an expense in the income statement to reflect an increase in the probability of losses due to uncollected loans;

"Sacco business" has the meaning assigned to it in the Act; and

"unclaimed assets" has the meaning assigned to it under the Unclaimed Financial Assets Act (Cap. 494).

### 3. Purpose

The purpose of these Regulations is to—

- (a) specify the non-deposit-taking business to which these Regulations shall apply; and
- (b) prescribe measures for the conduct of specified non-deposit-taking business pursuant to section 3(2) of the Act.

### 4. Specified non-deposit-taking business

(1) For the purposes of section 3(1)(b) of the Act, the following shall be specified non-deposit taking business—

- (a) non-deposit taking business in which the total non-withdrawable deposits from members is equal to or exceeds the sum of one hundred million shillings;
- (b) non-deposit taking business in which the Sacco society mobilises membership and subscription to its share capital through digital or other electronic payment platforms; or
- (c) non-deposit taking business in which the Sacco society mobilises membership and subscription to its share capital from persons who are ordinarily resident outside the country.

(2) For the purposes of paragraph (1) (b) and (c), a non-deposit-taking Sacco society shall not mobilise for membership and subscription to its share capital principally through digital or other electronic payment platforms or from persons who are ordinarily resident outside the country unless it has been authorised to do so in writing by the Authority.

## PART II – AUTHORISATION

### 5. Authorisation requirements

(1) A person shall not carry on a specified non-deposit taking business without written authorisation from the Authority.

(2) A non-deposit-taking Sacco society that undertakes specified non-deposit-taking business shall apply to the Authority in the form set out in Form 1A in the First Schedule;

(3) An application for authorisation shall be accompanied by—

- (a) a completed "fit and proper test" form as set out in Form 1B in the First Schedule specifying—
  - (i) the members of the Sacco society's board of directors;
  - (ii) the members of the Sacco society's supervisory committee;
  - (iii) the Sacco society's chief executive officer; and
  - (iv) the Sacco society's senior management staff including heads of the information, communications and technology function, the internal

audit function, the credit management function and the finance function;

- (b) a copy of the Sacco society's registration certificate;
- (c) a copy of the Sacco society's by-laws;
- (d) a three-year business plan and feasibility study of the Sacco society;
- (e) a certified extract of minutes of the general meeting resolution authorising the Sacco society to carry on specified non-deposit taking business;
- (f) certified copies of the Sacco society's audited financial statements for the preceding three years, where applicable;
- (g) evidence that the Sacco society has adequate capital; and
- (h) a non-refundable application fee of three thousand shillings.

(4) The Authority shall, if satisfied that an applicant has fulfilled the requirements in paragraph (3), conduct an independent onsite inspection to ascertain if the non-deposit-taking Sacco society has—

- (a) appropriate institutional infrastructure, including adequate working space;
- (b) a Management Information System for the purpose of performing and accounting for all transactions and providing the minimum reports required by the Authority;
- (c) appropriate risk management policies and internal control systems; and
- (d) suitable organisational, governance and management structures.

(5) Where the Authority is satisfied that a non-deposit-taking Sacco society has complied with conditions prescribed in paragraph (4), the Authority shall notify the Sacco society.

(6) A non-deposit-taking Sacco society that has been notified of compliance with the conditions prescribed in paragraph (4) shall pay an authorisation fee of—

- (a) fifty thousand shillings for the Sacco society's head office; and
- (b) and ten thousand shillings for every other place of business of the Sacco society.

(7) The Authority shall, upon receiving the authorisation fee from the non-deposit-taking Sacco society, issue the Sacco society with an authorisation certificate in Form 1C as set out in the First Schedule.

(8) The Authority may, at any time, inspect or cause an inspection to be made by any person authorised by the Authority in writing of any non-deposit-taking Sacco society and of its books, accounts and records to determine if the Sacco society is carrying on a specified non-deposit-taking business.

## 6. Publication of list of specified non-deposit-taking business

(1) The Authority annually shall publish a list of all non-deposit-taking Sacco societies authorised under these Regulations in the *Gazette* and in at least one newspaper of national circulation.

(2) Despite paragraph (1), the Authority shall publish in the *Gazette* and in at least one newspaper of national circulation any newly authorised non-deposit-taking Sacco society within sixty days of such authorisation.

## 7. Protection of name

(1) A non-deposit-taking Sacco society that has been authorised to undertake specified non-deposit taking business shall include in its name the words "Regulated Non-withdrawable deposit-taking SACCO" or "Regulated Non-WDT-SACCO".

(2) A person shall not use the words "Regulated Non-withdrawable deposit-taking SACCO" or "Regulated Non-WDT-SACCO" or any of its derivatives in the name, description or title under which that person transacts business in Kenya or represent that the person transacts specified non-deposit taking business unless that person is authorised to carry on non-deposit taking business in accordance with these Regulations.

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[Subsidiary]

## 8. Failure to obtain authorisation

(1) Where the Authority determines that a Sacco society ought to obtain authorisation under these Regulations but has failed to apply for authorisation or, having applied for it, has failed to obtain authorisation, the Authority shall—

- (a) issue an order prohibiting the Sacco society from taking any further non-withdrawable deposits from the date of the order;
- (b) notify the public and employers to cease making any remittances of non-withdrawable deposits to the Sacco society;
- (c) direct bankers and other payment service providers to cease receiving funds on the accounts of or on behalf of that Sacco society;
- (d) publish a notice stating that the Sacco society is not authorised to take any further non-withdrawable deposits; and
- (e) initiate the appropriate enforcement action against any officer of the Sacco society in accordance with the Act and these Regulations.

(2) A non-deposit-taking Sacco society or an officer thereof that is aggrieved by any action by the Authority under paragraph (1) may appeal within thirty days to the Tribunal.

(3) An appeal made under paragraph (2) shall not operate as a stay in respect of the action of the Authority under paragraph (1).

## 9. Renewal and validity of authorisation

(1) An authorisation certificate issued by the Authority shall—

- (a) be valid unless otherwise revoked under these Regulations; and
- (b) be renewable annually by the Authority in accordance with these Regulations.

(2) Despite paragraph (1), a non-deposit-taking Sacco society shall not later than the 30th November of every year submit to the Authority—

- (a) an annual authorisation renewal fee of thirty thousand shillings for the Sacco society's head office;
- (b) an annual authorisation renewal fee of ten thousand shillings for each of the Sacco society's authorised places of business; and
- (c) the Sacco society's annual data and information specifying the operations and performance of the Sacco society in such form as the Authority may require.

(3) A non-deposit-taking Sacco society shall at all times display the authorisation certificate issued by the Authority in a conspicuous place within its head office and a copy of the authorisation certificate in each of its other places of business.

(4) A non-deposit-taking Sacco society or an officer that contravenes the provisions of this regulation shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings in accordance with section 51 of the Act.

## 10. Revocation of authorisation

(1) The Authority may revoke an authorisation on the ground Revocation of that a non-deposit-taking Sacco society—

- (a) has failed to maintain at least twenty-five percent of the prescribed minimum capital adequacy requirements;
- (b) has ceased to undertake specified non-deposit taking business or failed in its objects;
- (c) has gone into liquidation, been wound up or has otherwise been dissolved or deregistered under the Co-operative Societies Act (Cap. 490);
- (d) has failed to comply with the Act, these Regulations or any condition imposed upon or attached to the authorisation certificate;
- (e) has failed to pay the prescribed authorisation fees or authorisation renewal fees; or



- (f) has knowingly engaged in criminal or fraudulent acts that—
- (i) are likely to cause insolvency, substantial dissipation of assets or earnings of the Sacco society; or
  - (ii) may otherwise weaken the business of the Sacco society or seriously prejudice the interests of the members or the public.

(2) A non-deposit-taking Sacco society whose authorisation is revoked under paragraph (1) shall be liable to have its registration cancelled by the Authority under section 62(1)(c) of the Co-operative Societies Act (Cap. 490).

(3) Upon revocation of authorisation, the Authority shall, within sixty days of the revocation—

- (a) initiate enforcement action to preserve the assets, books and records of the non-deposit-taking Sacco society pending any other appropriate action under the Co-operative Societies Act (Cap. 490); and
- (b) hand over the assets, books and records of the non-deposit-taking Sacco society to the Commissioner of Co-operatives for appropriate action under the Co-operative Societies Act (Cap. 490).

(4) A person who, at the time of revocation of an authorisation, was an officer of a non-deposit-taking Sacco society shall not participate in the oversight and management of any other Sacco society without the written approval of the Authority.

(5) The Authority shall publish in the *Gazette* and in at least one newspaper of national circulation—

- (a) the name of every non-deposit-taking Sacco society whose authorisation has been revoked under these Regulations; and
- (b) every person who at the time of revocation of an authorisation was an officer or former officer of the non-deposit-taking Sacco society whose authorisation was revoked during the period of twelve months preceding the revocation.

(6) An aggrieved non-deposit-taking Sacco society may appeal to the Tribunal in respect of the revocation within fifteen days after being notified of the revocation.

(7) An appeal under paragraph (6) shall not operate as a stay of the revocation of authorisation.

#### PART III – CAPITAL ADEQUACY

### 11. Minimum capital requirements

(1) A non-deposit-taking Sacco society shall maintain a core capital which shall comprise of—

- (a) not less than five million shillings;
- (b) not less than eight percent of the total assets of the Sacco society: provided that at least fifty per cent of the core capital shall be composed of retained earnings and disclosed reserves; and
- (c) not less than five percent of the total non-withdrawable deposits held by the Sacco society on behalf of its members.

(2) Despite paragraph (1), the Authority may at any time require higher minimum core capital ratios for a non-deposit-taking Sacco society where the Sacco society—

- (a) suffers any losses resulting in capital deficiency;
- (b) is significantly exposed to risk;
- (c) has a high or particularly severe volume of poor-quality assets;
- (d) is growing rapidly without adequate capitalisation and risk management system;
- (e) may be adversely affected by the activities or conditions of its associates, subsidiaries or related parties; or

[Subsidiary]

- (f) has contravened the provisions of the Act, these Regulations or any guideline, condition or directive issued by the Authority.

## 12. Sanctions for non-compliance

Where a non-deposit-taking Sacco society fails to maintain its capital adequacy requirements, in addition to sanctions provided under section 51 of the Act, the Authority may—

- (a) suspend the Sacco society from lending and investment;
- (b) prohibit the Sacco society from acquiring any additional land or buildings; or
- (c) prohibit the Sacco society from accepting further non-withdrawable deposits or other lines of credit.

## 13. Capital adequacy returns

(1) A non-deposit-taking Sacco society shall submit to the Authority with respect to every quarter a return on capital adequacy as set out in Form 2A in the Second Schedule.

(2) A non-deposit-taking Sacco society or the relevant officer of the Sacco society that fails to submit a return on capital adequacy as required under paragraph (1) shall be liable to pay to the Authority a financial penalty not exceeding fifty thousand shillings.

### PART IV – LIQUIDITY MANAGEMENT

## 14. Liquidity management

(1) The board of directors of a non-deposit-taking Sacco society shall formulate, review and approve the liquidity policy of the Sacco society.

(2) A liquidity policy of a non-deposit-taking Sacco society prepared under paragraph (1) shall provide for the—

- (a) constitution, appointment and composition of a technical liquidity management team which shall be responsible for the daily liquidity management of the Sacco society;
- (b) measures of analysing and monitoring liquidity performance by the Sacco society;
- (c) criteria for determining and accessing lines of credit for liquidity purposes;
- (d) contingency plan for handling liquidity crises including 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;
- (e) minimum and maximum thresholds for total cash assets;
- (f) cash holding limits;
- (g) frequency for the liquidity management; and
- (h) any other relevant matter as may be directed by the Authority.

(3) A non-deposit-taking Sacco society shall maintain a liquidity ratio of not less than ten per cent of the Sacco society's non-withdrawable deposits and short-term liabilities in liquid assets.

(4) For the purpose of this regulation, "liquid assets" shall include—

- (a) notes and coins;
- (b) balances at institutions licensed under the Act or Banking Act (Cap. 488) after deducting balances owed to those institutions;
- (c) government securities;
- (d) deposits held at other Sacco societies of a maturity not exceeding ninety-one days after deducting balances owed to those Sacco societies;
- (e) value of balances in electronic transfer systems; and
- (f) such other liquid assets as the Authority may specify.

(5) A non-deposit-taking Sacco society that fails to maintain the liquidity ratio specified in paragraph (3) shall, in addition to the penalties prescribed by section 30(3) of the Act, be liable to—

- (a) be suspended by the Authority from lending and investing;
- (b) suspended by Authority from taking new non-withdrawable deposits;
- (c) prohibited by the Authority from acquiring additional non-core assets;
- (d) prohibited by the Authority from declaring dividends, paying bonuses, salary incentives or any other discretionary compensation to officers of the Sacco society; or
- (e) prohibited or suspended by the Authority from activities that may contribute to the liquidity strain in the Sacco society.

### 15. Liquidity statement returns

(1) A non-deposit-taking Sacco society shall, at least once in every quarter, submit a liquidity statement return to the Authority in Form 2B as set out in the Second Schedule.

(2) Despite paragraph (1), the Authority may require a non-deposit-taking Sacco society to submit a liquidity statement as frequently as may be necessary to evaluate and monitor the Sacco society's liquidity position.

(3) A non-deposit-taking Sacco society or the relevant officer of the Sacco society that fails to submit a liquidity statement return under paragraph (1) shall be liable to pay to the Authority a financial penalty not exceeding fifty thousand shillings.

### 16. Prohibited business

A non-deposit-taking Sacco society shall not engage in the following activities—

- (a) deposit-taking Sacco business;
- (b) foreign trade operations;
- (c) dealing in crypto currencies;
- (d) trust operations;
- (e) custodial services;
- (f) investing in venture capital;
- (g) underwriting or placement of securities;
- (h) purchase or otherwise acquisition of any land except as may be reasonably necessary for the purpose of expanding the Sacco business beyond the prescribed limits; or
- (i) transacting business with non-members.

## PART V – PLACES OF BUSINESS

### 17. Opening of a place of business

(1) Subject to these Regulations, a non-deposit-taking Sacco society may operate a place of business, other than its head office, including a branch, marketing office, satellite office or an outlet.

(2) A non-deposit-taking Sacco society that wishes to operate a place of business under paragraph (1) shall—

- (a) notify the Authority in writing of such intention at least ninety days before opening the new place of business;
- (b) obtain a written approval from the Authority before opening the new place of business;
- (c) pay to the Authority the prescribed fee; and
- (d) prominently display the authorisation to operate the place of business at the new place of business.

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[Subsidiary]

(3) The Authority shall issue a written authorisation to operate the place of business to the non-deposit-taking Sacco society if it is satisfied that the Sacco society has complied with the provisions of the Act and these Regulations.

(4) A non-deposit-taking Sacco society shall pay an annual authorisation fee of ten thousand shillings for a place of business authorised under paragraph (3).

### **18. Relocation of place of business**

(1) A non-deposit-taking Sacco society shall not relocate its head office or other authorised place of business without the written approval of the Authority.

(2) A non-deposit-taking Sacco Society intending to relocate its head office or other place of business under paragraph (1) shall—

- (a) notify the Authority in writing of such intention at least ninety days before the relocation;
- (b) obtain a written approval from the Authority before opening the new head office or place of business.

(3) A notification under paragraph (2)(a) shall be accompanied by—

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

### **19. Closing a place of business**

(1) A non-deposit-taking Sacco society may, with the approval of the Authority, close or cause to be closed a place of business in a manner as to permanently cease business.

(2) A non-deposit-taking Sacco society shall apply to the Authority for authorisation to close a place of business and the application shall be accompanied by—

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

(3) The Authority may approve the closure of business if it is satisfied that—

- (a) the public interest will not be jeopardized by the closure; and
- (b) there are alternative financial services to the services provided by the Sacco society in the locality.

(4) A non-deposit-taking Sacco society granted approval to close its business shall—

- (a) give a notice of the closure to the members at least ninety days before the closure in at least one newspaper of nationwide circulation or through any other method acceptable to the Authority; and
- (b) report the closure of the business to the Authority not later than fourteen days after the closure.

### **20. Guidelines and directives on place**

(1) The Authority may issue guidelines or directions to a Sacco society generally, and where appropriate provide exceptions to those guidelines or directions for the better carrying out of its functions under regulation 17, 18 and 19 of these Regulations, and in particular, with respect to the opening, relocation or closure of a place of business.

(2) An officer of a Sacco society who without cause, contravenes the provisions of this Act, regulations, guidelines or directives on opening, operating; relocating or closure of a place of business shall be liable to a financial penalty not exceeding a sum of one hundred thousand shillings.

(3) A person who contravenes the regulations on place of business commits an offence and shall be 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 such fine and imprisonment.

## PART VI – MEMBERS' SHARES AND DEPOSITS

**21. Terms of member shares**

(1) A non-deposit-taking Sacco society shall prescribe a minimum number of shares, and the par value of each share, for which an individual shall subscribe in order to become a member of the Sacco society.

(2) A non-deposit-taking Sacco society may not increase the number of minimum shares or the par value of the shares without the written approval of the Authority.

(3) A non-deposit-taking Sacco society shall maintain at its head office an up to date register for member shares which shall provide the following information and details for each member—

- (a) the name of the member in full;
- (b) the unique number assigned to the member;
- (c) the national identity card number or passport number of the member;
- (d) the number of shares subscribed to by the member;
- (e) the total value of the shares subscribed to by the member;
- (f) the gender of the member;
- (g) the date of birth of the member;
- (h) the address of the member including postal, physical or email address;
- (i) the names and addresses of the next of kin of the member; and
- (j) any other information or details as the Authority may prescribe.

(4) A non-deposit-taking Sacco society shall issue share certificates to each of its members within thirty days of payment by the member for shares to which the member has subscribed

(5) A share certificate issued to a member shall bear the—

- (a) the name of the non-deposit-taking Sacco Society in full;
- (b) the address of the non-deposit-taking Sacco society including the locations of the Sacco society's registered offices and the postal, telephone and email addresses of the Sacco society;
- (c) the name of the member in full to whom the share certificate is issued as appears in the shares register;
- (d) the member's unique number;
- (e) the number of shares subscribed to by the member;
- (f) the seal of the non-deposit-taking Sacco society;
- (g) the signature of the authorised officer of the non-deposit-taking Sacco society;
- (h) the date of issuance of the share certificate; and
- (i) the unique serial number.

**22. Restriction on dealing in shares**

(1) A member of a non-deposit-taking Sacco society shall not pledge the Sacco society's shares as collateral or security for a loan or any other credit facility.

(2) A member of a non-deposit-taking Sacco society may transfer shares to another or other members on leaving membership of a Sacco society, provided the Sacco society shall not refund shares.

(3) Shares issued by a non-deposit-taking Sacco society 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 the Sacco society have been made.

(4) A non-deposit-taking Sacco society shall pay dividends if it has—

- (a) realised an excess income over expenditure; and

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[Subsidiary]

- (b) complied with the prescribed capital adequacy and any other requirements prescribed by these Regulations.

### 23. Non-withdrawable deposit account

(1) A non-deposit-taking Sacco society shall maintain an up-to-date non-withdrawable deposit account for each member of the Sacco society which shall specify the—

- (a) the name of the member in full;
- (b) the member's unique number;
- (c) the account number of the member;
- (d) the national identity card number or passport number of the member;
- (e) the gender of the member;
- (f) the date of birth of the member;
- (g) the address of the member; and
- (h) an up to date account of the balances of the member.

(2) The non-withdrawable deposit account of a non-deposit-taking Sacco society shall be operated in accordance with the Act, these Regulations and any guidelines or directives issued by the Authority.

(3) The amount accumulated in a non-withdrawable deposit account of a member may, on the written application of such a member and subject to the by-laws and policies of the non-deposit-taking Sacco society, be used as collateral or security against any borrowings or credit facilities advanced by the Sacco society to the member.

(4) The amount accumulated in a member's non-withdrawable deposit account shall be refunded when the member withdraws from membership of the non-deposit-taking Sacco society:

Provided that the member shall have fully repaid all debts owed to the Sacco society or for which the non-withdrawable deposits have been pledged as security or collateral and is free from any outstanding guarantees.

(5) Where a non-deposit-taking Sacco society operates non-withdrawable deposit accounts, every member shall contribute to the deposit accounts on a monthly basis or at such fixed periods and in such amounts as determined by the Sacco society.

(6) A non-deposit-taking Sacco society shall refund to a member the amount accumulated in the member's non-withdrawable account within sixty days of receiving the written notification of the member to withdraw from membership of the Sacco society.

(7) The amount held in a non-withdrawable account of a member shall attract interest at a rate to be determined by the Sacco society as dictated by external market forces or internal funding needs.

(8) The amount held in a non-withdrawable account of a member or any portion thereof shall not be—

- (a) converted to the share capital in the non-deposit-taking Sacco society; or
- (b) withdrawn to pay for or for the payment of the share capital in the non-deposit-taking Sacco society.

(9) The Authority may at any time require a Sacco society to submit for inspection the non-withdrawable accounts of members.

### 24. Returns of non-withdrawable deposits

At least once in every quarter, each non-deposit-taking Sacco society shall submit to the Authority returns on the non-withdrawable deposits held by the Sacco society at the end of every quarter in Form 2C as set out in the Second Schedule.

**25. Record-keeping**

(1) A non-deposit-taking Sacco society shall maintain an account for each of its members through which shares and non-withdrawable deposit transactions with the member shall be recorded.

(2) A non-deposit-taking Sacco society may establish an electronic system for its members to access their shares and non-withdrawable deposit transactions statements.

**26. Non-withdrawable deposits disclosure requirements**

(1) A non-deposit-taking Sacco society shall disclose to its members the terms for operating non-withdrawable deposit accounts and the legal obligations of the members.

(2) The disclosure under paragraph (1) shall not be misleading or inaccurate and shall not misrepresent the non-deposit-taking Sacco society's non-withdrawable deposit account terms and conditions.

**27. Dormant accounts**

(1) A non-deposit-taking Sacco society shall deem a non-withdrawable account as dormant if, without justifiable cause, transactions have not been made therein for a period of at least twelve months and the Sacco society shall maintain a separate accounting record of all such dormant non-withdrawable accounts.

(2) Any non-withdrawable deposits and other sums due to a member shall be deemed to be unclaimed in accordance with the provisions of the Unclaimed Financial Assets Act (Cap. 494).

(3) A non-deposit-taking Sacco society shall fully comply with the provisions of the Unclaimed Financial Assets Act (Cap. 494) with respect to any unclaimed non-withdrawable deposits or any sums due to a member or a member's nominee or former member.

## PART VII – CREDIT MANAGEMENT

**28. General lending requirements**

(1) Except as otherwise provided, these Regulations shall apply to all credit facilities provided by non-deposit-taking Sacco societies to the members.

(2) A non-deposit-taking Sacco society shall have a written credit policy consistent with the provisions of the Act, these Regulations and any other relevant written law.

(3) The credit policy of a non-deposit-taking Sacco society shall provide for the—

- (a) composition, constitution and appointment of a credit committee;
- (b) composition, constitution and appointment of a technical credit committee;
- (c) responsibilities and duties of the credit committee and technical credit committee;
- (d) loaning procedures and loaning documentation;
- (e) eligibility requirements for a loan from the Sacco society;
- (f) permissible loan purposes and acceptable types of collateral;
- (g) loan concentration limits;
- (h) terms and conditions for loans;
- (i) maximum loan size per product;
- (j) loan performance classification and provisioning for impairment reserve;
- (k) where collateral is used as security for lending, maximum loan amounts as a percentage of the value of collateral;
- (l) minimum due diligence procedures including ownership, county rates, lease period, pre-charge search and post-charge search;
- (m) appraisal of the borrower's ability to repay the loan;
- (n) terms and conditions for insider lending and insider dealing;
- (o) maximum loan approval levels for each officer and members of committees;

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[Subsidiary]

- (p) requirements for guarantors; and
- (q) procedures for disposal of foreclosed assets.

(4) Except as otherwise provided, no director or employee of a non-deposit-taking 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 credit committee of a non-deposit-taking Sacco society shall be responsible for ensuring that the credit policy of the Sacco society remains up-to-date and reflects current lending practices.

(6) A non-deposit-taking Sacco society shall give at least sixty days written notice to each member affected by a change in any term disclosed in the loan contract.

(7) A non-deposit-taking Sacco society shall provide each borrower, at least annually and upon request by the member, a statement for each outstanding credit facility which shall provide adequate detail of each transaction made during the period.

### 29. Sectoral loan classification returns

(1) A non-deposit-taking Sacco society shall, at least once in every quarter, submit to the Authority a return on sectors' loan classification of the loans issued to its members during that period.

(2) The sectoral loan classification return submitted under paragraph (1) shall specify—

- (a) the members' unique number;
- (b) the name of the member in full;
- (c) the national identity card number or passport number of the member,
- (d) the gender of the member;
- (e) the date of birth of the member,
- (f) the loan account numbers of the member;
- (g) amounts of the loans advanced to members;
- (h) the date on which the loans were advanced;
- (i) the purposes of the loans;
- (j) the economic sectors in respect of which the loans are meant to finance; and
- (k) the repayment periods of the loans in months.

(3) For purposes of paragraph (2), the Authority may issue publish guidelines prescribing the economic sectors into which loans issued by non-deposit-taking Sacco societies may be classified.

### 30. Lending disclosure requirements

A non-deposit-taking Sacco society shall disclose the following lending terms and legal obligations applicable to any loan advanced by the Sacco society—

- (a) the amount to be financed;
- (b) the finance charges including interest rate, fees and any other charges that may be imposed by the Sacco society;
- (c) the interest computation method and date on which interest begins to accrue on the loan;
- (d) the conditions for refinancing of loans;
- (e) the conditions for consolidation of loans;
- (f) the frequency of issue of statements; and
- (g) the collateral required to secure a loan.

### 31. Interest rates, fees and penalties

(1) Interest rates on loans issued by non-deposit-taking Sacco societies may be proposed by management and approved by the board of directors.



(2) A non-deposit-taking Sacco society shall, with respect to a loan issued by the Sacco society, first recover the interest accruing on the loan and thereafter, any charges due on the repayment of the loan.

(3) A non-deposit-taking Sacco society may levy a late charge in respect of the collection of a debt arising out of an extension of credit which remains unpaid after its due date.

(4) A non-deposit-taking Sacco society shall be limited to the interest it recovers from a borrower with respect to a delinquent loan which shall not exceed the amount outstanding when the loan became delinquent.

### 32. Security for loans

(1) A non-deposit-taking Sacco society shall ensure that—

- (a) all loans granted or issued by the Sacco society are adequately secured; and
- (b) a member is not allowed to offer a guarantee for a loan that exceeds the member's capacity to secure the loan.

(2) A non-deposit-taking Sacco society shall, at least once in every year, adequately inform a member of the performance of a credit facility for which the member has given a guarantee.

(3) A non-deposit-taking Sacco society shall not grant a loan or credit facility if the loan or credit facility if the member offers his or her shares in the Sacco society as security for the loan.

(4) A non-deposit-taking Sacco society shall not grant a member, or permit to remain outstanding, a loan such that the aggregate amount in respect of that member shall at any time exceed ten per cent of the Sacco Society's core capital without the written approval of the Authority.

(5) A non-deposit-taking Sacco society or an officer that violates any provision of this regulation shall be liable to pay a financial penalty to the Authority not exceeding one hundred thousand shillings in accordance with section 51 of the Act.

### 33. Inter-Sacco borrowing

(1) A non-deposit-taking Sacco society may borrow or lend to another non-deposit-taking Sacco society for the purpose of providing funding for member loans or to finance temporary liquidity shortfalls:

Provided that—

- (a) the Sacco society shall not borrow or lend to another Sacco society without the written approval of the Authority;
- (b) the borrowing Sacco society shall not exceed the prescribed limit for external borrowings;
- (c) the board of directors of the Sacco society shall approve the transaction with the other Sacco society;
- (d) the terms and conditions of the transaction shall be expressly set out in a written agreement between the parties and on the approval of the Authority; and
- (e) where a Sacco society borrows for the purposes of on-lending to its members, it shall price loans taking in account the cost of the borrowed funds, the Sacco society's operating expenses, the quality of the existing loan portfolio and provisioning, the capital requirements of the Society and dividend and interest rebates expectations.

(2) The Authority may issue guidelines to provide for inter-Sacco borrowing by non-deposit-taking Sacco societies.

### 34. Approval of new products and services

(1) A non-deposit-taking Sacco society that wishes to introduce a new loan product or financial service shall—

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[Subsidiary]

- (a) conduct a feasibility study to establish the demand and sustainability of the proposed product or service taking into consideration the attendant risks and the liquidity position of the Sacco society; and
- (b) apply for approval from the Authority to introduce the product or service.

(2) Upon obtaining the approval of the Authority, the board of directors of the non-deposit-taking Sacco society may introduce the new product or service to the members of the Sacco society.

(3) An officer of a non-deposit-taking Sacco society who violates the provisions of this regulation shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings in accordance with section 51 of the Act.

### **35. External borrowing and limits on loans**

(1) A non-deposit-taking Sacco society shall not borrow externally in excess of twenty-five per cent of its total assets without the written permission of the Authority.

(2) A non-deposit-taking Sacco society that wishes to borrow externally in excess of twenty-five per cent of its total assets shall apply to the Authority for permission to do specifying the reasons for the need to raise the limit above twenty-five of its total assets.

(3) The Authority may permit a non-deposit-taking Sacco society to borrow externally in excess of twenty-five per cent of its total assets under exceptional circumstances, and shall impose such terms and conditions on the Sacco society as it deems fit if the proposed borrowing limit is not likely to have any adverse effect on the safety and soundness of the Sacco society.

(4) The borrowing powers of a non-deposit-taking Sacco Society under the Co-operative Societies Act (Cap. 490), shall not exceed the limit prescribed in these Regulations.

(5) A non-deposit-taking Sacco society shall only borrow externally to fund the loan portfolio of the Sacco society.

(6) For the purposes of this regulation, the computation of external borrowing shall include any outstanding contingent liabilities or obligations that the non-deposit-taking Sacco society may have contracted.

### **36. Insider lending and insider dealing**

(1) A director or employee of a non-deposit-taking Sacco society shall not use his or her position to further his or her personal interests.

(2) An application for a loan by a director or employee of a non-deposit-taking Sacco society shall first be approved by the board of directors of the Sacco society and where the applicant attends board meetings, he or she shall not be present in the meeting considering the loan application.

(3) The rates, terms and conditions of any loan made to a director or employee of a non-deposit-taking Sacco society, an immediate family member of the director or employee or a business associate of a director or employee shall not be more favourable than those offered to members of the Sacco society.

(4) A non-deposit-taking Sacco society shall not lend to its directors or employees or its directors', an immediate family member of the director or employee or a business associate of a director or employee or permit to be outstanding, an amount which in the aggregate exceeds ten per cent of its gross loan portfolio.

(5) A non-deposit-taking Sacco Society shall, on or before the fifteenth of each month, submit to the Authority an insider lending and loans performance report which the Authority may provide through guidelines.

(6) An officer of a non-deposit-taking Sacco society who violates the provisions of this regulation shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings in accordance with section 51 of the Act.

**37. Foreclosed assets**

(1) Where a non-deposit-taking Sacco society holds an asset in satisfaction of a debt by a member, the disposition of such asset shall occur within one year:

Provided that where the Sacco society fails to dispose of the asset, the Sacco society shall provide for probable loss at twenty-five per cent per annum.

(2) Where the proceeds from the disposition of an asset under paragraph (1) exceeds the amount owing, the excess amount shall be returned to the member after taking into account advertising charges and other charges related to the disposal of the asset.

(3) A non-deposit-taking Sacco society shall dispose of a foreclosed asset in accordance with the terms of the charge imposed on the asset.

(4) Where a charge imposed on an asset held by a non-deposit-taking Sacco society specifies disposal through public auction, a Sacco society shall advertise the disposal of the asset in a national newspaper of nationwide circulation on any day between Monday and Friday excluding public holidays.

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

(6) 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.

(7) 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.

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

(9) An officer of a Sacco Society or the family member of an officer shall not purchase foreclosed assets.

(10) An officer of a Sacco society, who violates the provisions of this regulation, shall be liable to a financial penalty not exceeding one hundred thousand shillings in accordance with section 51 of the Act.

**38. Credit management and collection practices**

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

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

(3) A Sacco society may appoint a debt doftector after exhausting the normal debt collection procedures.

## PART VIII – RISK CLASSIFICATION OF ASSETS AND PROVISIONING

**39. Classification requirements**

(1) A Sacco society shall undertake a detailed review of its credit portfolio at least once every quarter and shall ensure that—

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

[Subsidiary]

(2) The board of directors of the Sacco society shall at least once every quarter consider a report on the review of the credit portfolio undertaken in accordance with paragraph (1).

#### **40. Delinquency and basis of classification**

(1) A one-off loan payment shall be deemed to be delinquent if the total principal balance and interest is not serviced at the due date.

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

(3) The Sacco society shall classify its loan portfolio based on performance and the terms provided in the loan contract.

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

(5) 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 instalment is outstanding;
- (c) substandard loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained unpaid between thirty-one to one hundred and eighty days or where two to six instalments have remained outstanding;
- (d) doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained unpaid 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 considered uncollectable or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained unpaid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding.

(6) 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 without the approval of the board of directors in its life cycle.

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

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

#### **41. Treatment of collateral**

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

(2) A Sacco society shall maintain an up to date register of all securities and collaterals held against any loan issued by the Sacco society.

#### **42. Loan loss allowances**

A Sacco society shall assess and provide for loan loss allowance for non-performing loans as follows—

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

#### 43. Loan write-offs

(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 and such circumstances 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.

(2) The procedure for write-off should 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.

(3) Despite the provisions of paragraph (1), a Sacco society shall not write off any loans to an insider, an immediate family member of an insider or a business associate of an insider, except with a prior written approval of the Authority.

#### 44. Risk classification returns

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 fifteenth day of the following month as set out in Form 2D of the Second Schedule to these Regulations.

### PART IX – INVESTMENTS

#### 45. Investment policy

(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.

(2) A Sacco society's investment policy shall at the minimum provide for—

- (a) purpose and objectives of investment activities;
- (b) types and nature of investments that can be made;
- (c) investment characteristics and limitations;
- (d) investment approval guidelines;
- (e) duties and responsibilities of a committee handling investment;
- (f) investment risk management framework;
- (g) composition, qualifications and competencies of persons handling the investment decisions;
- (h) any other matter as the Authority may direct.

#### 46. Limits on property equipment and financial assets

(1) A Sacco society shall not invest in land and buildings; and equipment in excess of ten per cent of total assets, unless a waiver to that effect has been obtained from the Authority, provided that the:

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[Subsidiary]

- (a) investment in land and buildings shall not exceed five percent of the total assets; and
- (b) donated assets and foreclosed assets are 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 unutilized for five years from the date of acquisition.

(4) A Sacco society shall not make financial investments in non-government securities, including investments in equities, collective investment schemes, bonds, commercial papers and notes, or derivatives, or equities of a subsidiary or a related entity; in excess of forty per cent of its core capital provided that the—

- (a) investments in equities of any legal entity or a derivate issued by any legal entity shall not exceed twenty per cent of the prescribed limit at any given time;
- (b) investments in collective investment schemes, bonds, commercial papers and notes, shall not exceed thirty per cent of the prescribed limit at any given time; and
- (c) investments in equities of a subsidiary or related entity shall not exceed fifty per cent of the limit prescribed at any given time.

(5) A Sacco Society shall not finance or extend a loan facility or guarantee in a subsidiary or a related entity without prior written approval from the Authority.

(6) For purposes of these regulations a "related entity" includes a Sacco society or a co-operative society in which the Sacco society shares common membership or common directorship or common bond or associates of the Sacco society or joint ventures.

#### **47. Due diligence and approval of proposed investments**

(1) A Sacco society shall carry out a due diligence on any investment it intends to undertake and shall at the minimum consider—

- (a) compliance with the approved investment policy;
- (b) investment cost and the Sacco society's financing ability;
- (c) expected rate of return, payback period and associated risks including legal, compliance, financial, environmental and mitigation mechanisms;
- (d) expected benefits to the entire membership;
- (e) ownership of the investment and any insider dealings;
- (f) any other matter as may be necessary to inform the investment decision.

(2) Despite the provisions of paragraph (1), a Sacco society shall not undertake any investment without prior written approval of the Authority; and the investment proposal together with the due diligence report being presented to members in a duly constituted meeting for approval.

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

#### **48. Restricted investment transactions**

(1) A Sacco society shall not acquire, sell or lease premises to or from the following—

- (a) a board member, employee or immediate family member of the board member or employee;
- (b) businesses in which any of the persons named in sub paragraph (a) is an officer, partner or has an interest of greater than 10% in the entity or partnership

without the prior written approval of the Authority.

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

#### **49. Investment returns**

A Sacco society shall submit to the Authority a return on its investments at the end of every year to be received on or before the fifteenth day January of the following year as set out in Form 2E in the Second Schedule.

### **PART X – FINANCIAL PERFORMANCE REPORTING**

#### **50. Financial returns**

(1) A Sacco society shall submit to the Authority a return of the statement of comprehensive income, a statement of financial position and a statement of other disclosures showing the results of its operations at the end of every quarter to be received on or before the fifteenth day of the following quarter as set out in format prescribed in the Second Schedule.

(2) The financial statements and associated descriptions shall be presented without deviation as set out in the following forms set out in the Second Schedule—

- (a) Form 2F— Statement of Comprehensive Income;
- (b) Form 2G— Statement of Financial Position; and
- (c) Form 2H— Statement of other disclosures.

#### **51. Distribution of earnings to members**

(1) A Sacco society may pay interest on the non-withdrawable deposits and dividends on the shares to its members based on financial performance for the year; subject to complying with regulatory requirements.

(2) A Sacco society may create a dividend equalization fund to serve as a buffer between desired dividend level and annual surplus realized.

(3) A Sacco society shall not finance payment of interest on non-withdrawable deposits, dividends, honoraria or bonuses from borrowed funds.

#### **52. Internal auditors**

(1) A Sacco society shall appoint an internal auditor who shall report to the board of directors; and be responsible for—

- (a) the Sacco Society's internal audit function; and
- (b) reviewing and reporting on the adequacy of the internal audit system and the financial matters of the Sacco society.

(2) A Sacco society may establish or outsource internal audit functions, provided that the person responsible for the internal audit function shall be a fully qualified accountant under the Accountants Act (Cap 531).

(3) The board of directors shall report to the Authority, within fifteen days, the appointment, resignation or removal of the internal auditor.

#### **53. Specific duties of internal auditors and audit functions**

(1) An internal auditor of a Sacco society shall be responsible to the board of directors for—

- (a) developing a comprehensive audit program and audit plan to cover all the activities and programs;
- (b) the implementation of an internal risk based audit strategy and annual plan;
- (c) conducting timely risk-based internal audits and advising the board of directors on all audit matters;
- (d) reviewing and advising the board of directors on the risk management framework;

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[Subsidiary]

- (e) assessing the reliability and integrity of financial, operating procedures and compliance with set policies;
  - (f) reviewing the economic efficiency and effectiveness in the utilization of resources so that the objectives of the Sacco society are achieved;
  - (g) providing practical solutions to improve overall efficiencies and enhance internal controls;
  - (h) monitoring the level of compliance with laws, rules, regulations, policies, processes and procedures;
  - (i) conducting investigations on suspected internal fraud and corruption;
  - (j) proactively keeping the board of directors and management aware of emerging trends regarding internal controls, risk management, governance and internal auditing;
  - (k) preparing and presenting accurate internal audit reports to the board of directors on a monthly basis;
  - (l) liaising with external auditors when audits are undertaken;
  - (m) providing support, technical and secretarial services to the supervisory committee in the performance of its duties under these Regulations and the Cooperative Societies Act (Cap. 490); and
  - (n) promoting the highest standards of ethics and standards in the Sacco society based on the principles of integrity, objectivity, competence and confidentiality.
- (2) A Sacco society's internal auditor shall be responsible to the Authority for—
- (a) communicating any evidence of irregularities or illegal acts that have been committed by directors, employees or the Sacco Society;
  - (b) informing 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) reporting failure by the officers to provide all of the necessary information and documentation to enable the internal audit function to perform internal audit duties effectively; and
  - (d) performing any other responsibilities as the Authority may direct.

#### **54. Appointment of external auditors**

(1) A Sacco society shall recommend at last three names to the annual general meeting which shall select one out of the three to be the external auditor in accordance with section 45 of the Act.

(2) A Sacco society shall submit to the Authority the name of the selected external auditor within thirty days after the annual general meeting together with certified copy of the minutes recording the appointment.

(3) A Sacco society shall change or rotate its external auditors every three years; provided that the Authority may waive this requirement on exceptional circumstances, upon written a request from the Sacco society.

#### **55. Restriction on removal of internal or external auditors**

(1) A Sacco Society shall not remove its internal auditor or external auditor, except in accordance with section 44(2) of the Act.

(2) A notification for the removal of an internal auditor or external auditor shall contain detailed reasons for the proposed removal, and in its consideration of such notification, the Authority may obtain a written representation from the internal auditor or external auditor as the case may be.

#### **56. Submission of audited financial statements**

(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.



(2) The audited financial statements to be submitted to the Authority pursuant to the Act shall be in four copies, or such other number of copies as the Authority may specify; and shall *inter alia*—

- (a) disclose any material amount written off with a resolution of the annual general meeting of the Sacco society accompanied by a 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;
- (g) system's audit report;
- (h) key audit matters;
- (i) business sustainability report;
- (j) other disclosures as prescribed in these Regulations.

(3) The board of directors shall not present the audited financial statements of a Sacco society to the members at the annual general meeting unless the financial statements have previously been submitted and approved by the Authority.

(4) The board of directors shall present the audited financial statements at the annual general meeting within four months after the end of the financial year during which the—

- (a) external auditor shall present his independent report and opinion; and
- (b) board of directors shall present to the members' the observations, directives, reservations or comments made by the Authority in approving the audited financial statements.

(5) 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.

(6) An officer of a Sacco society who wilfully occasions, or causes a Sacco society to violate this regulation, shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings.

#### **57. Responsibilities of external auditors to the Authority**

The duties and responsibilities of the external auditor in relation to the Authority shall be to—

- (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 reasonable 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 Sacco society management practices and procedures are sufficient to safeguard members' assets and enhance its financial stability.

#### **58. Role of the supervisory committee**

(1) The supervisory committee provided for under the Cooperative Societies Act, (Cap 490) shall, in addition to the duties assigned to it under the Cooperative Societies Rules 2004, (L.N. 123/2004) perform the following functions—

- (a) review internal controls including the scope of the internal audit program, the internal audit findings, and recommend action to be taken by management;

[Subsidiary]

- (b) review 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;
- (c) ensure that accounting records and financial reports are promptly prepared to accurately reflect operations and results;
- (d) review management reports, and reports from the internal and external auditors concerning deviations and weaknesses in accounting and operational controls;
- (e) monitor the ethical conduct of the Sacco society and consider the development of ethical standards and requirements, including—
  - (i) effectiveness of procedures for handling and reporting complaints;
  - (ii) reviewing any related party transactions that may arise within the Sacco Society;
  - (iii) verifying that relevant plans, policies, and control procedures are established and properly administered;
  - (iv) investigating members complaints and making recommendations for redress;
  - (v) considering any matter of significance raised by members during the annual general meeting or the Authority.

(2) The supervisory committee shall prepare and submit quarterly reports to be presented to a joint meeting with the board of directors within thirty days after the end of each quarter.

(3) The supervisory committee shall submit or cause to be submitted to the Authority all quarterly reports of the supervisory committee, together with comments and actions made by the board of directors, within thirty days, after presentation to the board of directors.

### 59. Sanctions

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

## PART XI – GOVERNANCE OF SACCO SOCIETIES

### 60. Membership responsibilities

(1) Subject to the provisions of the Act, these Regulations and any other applicable law, the supreme authority of a Sacco society shall be vested in the members who shall jointly and severally protect, preserve and exercise such authority in general meetings.

(2) In exercising the responsibilities under this regulation, members shall jointly and severally ensure that only "fit and proper" members are elected to the board of directors and the supervisory committee.

(3) In electing the board of directors and the supervisory committee, members shall ensure compliance with the Constitution, the Act; Regulations; by-laws; nominee and vetting policy and any other applicable laws.

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

### 61. Directors' duties and responsibilities

(1) In the conduct of the affairs of the Sacco society, the board of directors shall exercise prudence and diligence of and shall be held, jointly and severally liable for any loss occasioned by their actions which are contrary to the Act, these Regulations, guidelines and directives of the Authority, Co-operative Societies Act (Cap. 490) and rules, bylaws or the direction of any general meeting of the Sacco society or any other applicable law.

(2) The board of directors shall—

- (a) ensure that management maintains proper and accurate records that reflect the true and fair position of the Sacco society's financial condition;
- (b) safeguard the assets of the Sacco society;
- (c) ensure the business of the Sacco society is conducted in accordance with its by-laws and any other resolutions made within the confines of the law and regulations;
- (d) ensure that the Sacco society functions effectively and that an adequate and effective internal controls and risk management system is in place consisting of appropriate policies including human resource policy, credit policy, investment policy, savings policy, liquidity policy, information preservation policy, dividend policy, electoral and vetting policy and risk management framework;
- (e) ensure that the Sacco society makes adequate provisions for known and probable losses likely to occur as required by these Regulations;
- (f) ensure that the Sacco society maintains a positive image within the industry and the economy as a whole;
- (g) develop and approve the terms of reference of various of committees of the Board;
- (h) be responsible to the members for the preparation and publication of the Sacco society's annual audited financial statements which shall be presented at an annual general meeting held not later than four months after the end of a financial year;
- (i) ensure effective co-ordination of the internal and external audit functions;
- (j) monitor the external auditor's independence and objectivity, taking into consideration the external auditor's relevant professional, capacity and regulatory requirements;
- (k) recommend three names of external auditors to the annual general meeting;
- (l) review with external auditors the scope of the annual audit plan, systems of internal audit reports, assistance given by management to the auditors and any findings and actions taken and determine auditor's remuneration;
- (m) develop and approve a board charter to guide the activities and operations of the board and its committees;
- (n) ensure that the board keeps and maintains a true and accurate record of the minutes of the meeting of the board and the board committees.

(3) The board of directors shall—

- (a) meet not more than fifteen times in a financial year and not more than two months shall lapse between the date of one meeting and the date of the next meeting; and
- (b) furnish the Authority with a certified copy of the minutes of its meeting on a semi-annual basis to be received not later than the 15th July and 15th January of each calendar year.

(4) The board of directors shall disclose in the audited financial statements, any compensation, fees, travel or meeting expense or reimbursement paid to each director of a Sacco society and each member of the supervisory committee, and shall be presented at the annual general meeting.

(5) The board of directors shall create such number of committees as may be necessary to effectively discharge its functions including a Credit and Risk Management Committee, provided that the—

- (a) number of board committees shall not exceed three;
- (b) board members shall not sit in more than two committees;
- (c) chairman shall not sit in any of the board committees, but may attend any committee meeting upon invitation in writing by the committee; and

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[Subsidiary]

(d) a board member shall not chair more than one committee.

(6) 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.

## **62. Directors not to be remunerated**

(1) A member of the board of directors shall not receive remuneration in form of a salary or any fixed or periodic payments, in respect of services rendered to the Sacco Society, but may be reimbursed for necessary expenses incurred in the course of discharging lawful duties to the benefit of the Sacco society.

(2) The reimbursements for necessary expenses incurred by directors in the course of discharging lawful duties shall be determined at such rates as the members shall approve during the general meeting.

(3) Where the Authority determines that a director or any other officer of a Sacco society has received any remuneration or any other payments whatsoever contrary to these Regulations, the Authority shall—

- (a) direct the director or officer to forthwith refund to the Sacco society such remuneration or payment with interest at the prevailing Central Bank rate per month, from the date of receipt of such remuneration or payment until payment in full; and
- (b) issue an order suspending the director or officer from the service of the Sacco society until the full refund with interest of such remuneration or payment.

(4) In addition to the penalty imposed by the provisions of paragraph (3), the Authority may impose or institute any other appropriate supervisory enforcement action against the officer or the Sacco society in accordance with sections 51 and 52 of the Act to protect the interest of the members.

## **63. Limitation**

(1) A person shall not be permitted to hold the position of a Limitation director in more than one Sacco society.

(2) A person shall not be permitted to hold the position of a member of the supervisory committee in more than one Sacco society, or simultaneously hold the position of a member of a supervisory committee in one Sacco society and directorship in another Sacco society.

## **64. Appointment of chief executive officers**

(1) Subject to obtaining prior written approval from the Authority, a board of directors shall appoint and may remove from office the chief executive officer of a Sacco society.

(2) A Sacco society shall not remove its chief executive officer except with prior written notification to the Authority.

(3) A notification for the removal of a chief executive officer shall contain detailed reasons for the proposed removal, and in its consideration of such notification, the Authority may obtain a written representation from the chief executive officer.

(4) The board of directors shall notify the Authority, within fifteen days of appointment, resignation or removal of the chief executive officer and in the case of resignation or removal, the board of directors shall indicate the reasons for such resignation or removal.

(5) Despite the provisions of paragraph (1), the Authority may remove from the service of the Sacco society, the chief executive officer or any other officer of a Sacco society, in accordance with the Act and these Regulations.

## **65. Responsibilities of chief executive officers**

(1) The chief executive officer shall be responsible to the board of directors for the day to day running of the affairs of the Sacco society, including—

- (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 strategies developed and employed to facilitate achievement of targets and objectives;
- (d) human resource management and development;
- (e) adherence to the established code of conduct; the Act, these Regulations, guidelines and directives issued by the Authority; the Co-operative Societies Act (Cap. 490) and rules, the Sacco society's by-laws and any other applicable laws;
- (f) any other matter concerning the operations and activities of the Sacco society as the Authority may direct.

(2) The chief executive officer shall ensure that the board of directors is frequently and adequately apprised about the operations and activities of the Sacco society through the presentation of relevant reports which shall cover, but not be limited to the following areas—

- (a) financial statements (monthly, quarterly and annual) indicating current compared with past period actual performance, the budget compared with the actual expenditure and 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) including a comparison of the budget against actual;
- (e) sources and distribution on profile of deposits;
- (f) all insider dealings and non-performing insider loans if any;
- (g) reports on violation of the Act, these Regulations, guidelines and directives issued by the Authority, the Co-operative Societies Act (Cap. 490) and rules, and any other applicable law, and the remedial actions taken to comply;
- (h) large risk exposures;
- (i) investment portfolio and its performance;
- (j) any regulatory reports, and internal reports; and
- (k) any other relevant areas to the Sacco society's operations.

## 66. Code of Conduct

(1) All officers of a Sacco society shall comply with the requirements of the Public Officer Ethics Act (Cap. 185B) and the Code of Conduct made thereunder.

(2) Every Sacco society shall prepare a code of conduct which substantially conforms to the form set out in the Third Schedule for the approval of the Authority.

(3) An officer of a Sacco society who wilfully violates the Sacco society's code of conduct, shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings for every incidence.

(4) Despite the provisions of paragraph (3), the Authority may institute any other appropriate supervisory enforcement actions against an officer of a Sacco society who wilfully violates the Sacco society's code of conduct.

## 67. Directorships and subsidiaries

(1) A Sacco society shall not establish a corporate body or any other legal entity as its subsidiary without a written approval from the Authority, provided that where the subsidiary is a company, the subsidiary shall not be a public company.

(2) Where a Sacco society establishes a subsidiary, the board of directors shall develop a framework for the representation of its interest in the subsidiary, which shall be incorporated in the Sacco society's by-laws, provided that the chairman of the Sacco society shall not be eligible to be a member of the board of the subsidiary company or legal entity.

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[Subsidiary]

(3) The Authority may issue specific or general guidelines or directives to be complied with by Sacco societies intending to establish subsidiary corporate or legal entities.

#### PART XII – CONSUMER (MEMBER) PROTECTION

### 68. Access to financial products

(1) A Sacco society shall accord equal opportunities to its members to access the Sacco society's financial products and services.

(2) No member shall be discriminated upon on the basis of race, gender, age, tribe, religion or political affiliation when accessing the financial products and services of the Sacco society.

(3) A Sacco society shall—

- (a) develop financial products and services aimed at improving the social-economic interests of members; and
- (b) disseminate information about the financial products and services in a manner that is reasonably accessible to all its members.

(4) A Sacco society shall give advance written notice of at least thirty days before the effective date of a change to members affected or likely to be affected by any changes in the features of the Sacco society's products and services including the—

- (a) products and services;
- (b) likely impact of the changes on the members;
- (c) effective date of the changes;
- (d) rights of members affected by the changes; and
- (e) any other material matters.

(5) Any member of a Sacco society who is adversely affected by any changes to the products and services of a Sacco society shall be granted opportunity to opt out of the products or services within a reasonable time, and without any charges or penalty.

### 69. Shares and non-withdrawal deposits disclosures

(1) A Sacco society shall in writing or verbally disclose fully and accurately, the terms and conditions for subscription to its shares or the terms and conditions for the mobilization of non-withdrawable deposits to operate to its members and potential members.

(2) A Sacco society shall upon opening a non- withdrawable deposit account for a member, disclose all the terms and conditions for operating the account including savings frequency, tariffs, penalties, commissions, charges and fees.

(3) In the case of a joint or group account, a disclosure under this paragraph may be made to any of the officials of the Sacco society.

### 70. Members' account confidentiality

(1) A Sacco society shall at all times maintain the confidentiality of the members accounts and except as provided in the Act and these Regulations, shall not disclose the details of any such account without a written consent of the member.

(2) A Sacco society shall provide each member with a free statement for each account that provides adequate detail of each transaction made during the period on a quarterly basis or upon request by a member.

(3) A Sacco society may furnish the statement referred to in paragraph (2) through an electronic media to the members' disclosed electronic address.

### 71. Lending terms and legal obligations

(1) 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.

(2) A Sacco society shall disclose the terms and conditions of a new loan it refinances to a member.

(3) A guarantor shall be adequately informed of the nature, purpose and amount of the liability prior to signing an agreement creating guarantor liability.

(4) A Sacco society shall inform a guarantor of a defaulted loan in writing within one month after the loan has gone into default.

(5) A guarantor to a loan facility shall upon request be granted full access to the performance of the guaranteed loan.

## 72. Dividends on shares and interest on non-withdrawable deposits

(1) A Sacco society shall disclose and share with members the—

- (a) method employed to calculate any dividends payable on shares and interest payable on non-withdrawable deposits; and
- (b) frequency of the dividend or interest calculation and the time the dividends or interest are paid or credited to an account.

(2) The shares of a Sacco society held by a member shall attract dividends so long as the member's share capital remains in the Sacco society, and non-withdrawable deposits shall attract interest on a pro-rata basis up to the time that such deposits are fully refunded to the member upon withdrawal from membership.

(3) A Sacco society shall take appropriate measures to ensure that any dividend or interest declared and payable to a member pursuant to paragraph (2) is as soon as is reasonably practical remitted to the member or the member's nominee.

(4) For non-withdrawal deposits, a Sacco society shall disclose the current interest rate and annual percentage yield as established by the board of directors and the method used to calculate the interest.

(5) A Sacco society shall fully comply with the requirements of the Unclaimed Financial Assets Act, (Cap 494) with regard to any unclaimed dividends on shares or interest on members' withdrawable deposit or both.

## 73. Disclosures in advertisements

(1) A Sacco society shall ensure that any advertisement on subscription to its shares, and operations of its non-withdrawable deposits account or the provision of any of its financial services—

- (a) is not misleading or inaccurate; and
- (b) does not misrepresent the Sacco society's status, or any of the Sacco society's products and services.

(2) An advertisement concerning credit or loan facilities—

- (a) shall not be misleading or inaccurate;
- (b) shall not misrepresent the Sacco society credit products and services;
- (c) shall state only those terms and conditions of a credit or loan facility that actually are or will be offered by the Sacco society;
- (d) state the interest rate charged or chargeable on the credit or loan facility, and if the rate is likely to change during the term of the credit or loan facility, the advertisement shall state that fact.

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[Subsidiary]

#### **74. Fair debt-collection practices**

(1) 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.

(2) A debt collector appointed by a Sacco society shall 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, reputation, or property of any person;
- (b) use of obscene or profane language;
- (c) engaging any person in conversation on the telephone or in person with the intent to annoy, abuse or harass until they repay the debt;
- (d) false, deceptive, or misleading representation or means in connection with the collection of any debt, including—
  - (i) false representation of the character, amount or legal status of any debt;
  - (ii) false representation or implication that any individual is an attorney or that any communication is from an attorney;
  - (iii) threat to take any action that cannot be legally enforced or that is not intended to be taken;
  - (iv) communicating or threatening to communicate to any person credit information that is known to be false.

(3) A debt collector shall not collect interest, fees, charges or expenses unless they are mentioned in the loan agreement or contract.

(4) A debt collector shall not collect his or her fees directly from a debtor.

(5) A Sacco society shall only engage a duly authorised person as its debt collector.

#### **75. Member education and empowerment**

(1) A Sacco society shall have a documented communication policy to guide in disseminating information to members.

(2) A Sacco society shall furnish its members electronically or otherwise on annual basis, with copies of its by-laws, audited financial statements and approved policies.

(3) A Sacco society shall hold at least one education day for its members in a year to educate and update members on its products and services, rights of members and other emerging issues.

(4) A Sacco society shall develop service charter for its members which shall provide for the turnaround time for service delivery, recourse and feedback mechanism.

(5) Every product and service developed and promoted by a Sacco society shall be accompanied by information brochures detailing the Sacco society's features and tariffs which shall be issued to members and conspicuously displayed for access by members.

(6) A Sacco society shall accord its members reasonable opportunity to access all material information about its financial products and services.

#### **76. Complaint handling procedures**

(1) A Sacco society shall establish effective procedures for receiving, considering and responding to member complaints which at the minimum are to be—

- (a) member friendly;
- (b) easily accessible;
- (c) capable of addressing the complaints adequately;
- (d) able to provide prompt feedback to the complainant;
- (e) able to provide an audit trail report.



(2) A Sacco society shall adopt, document and disclose to its membership, the procedures for the proper handling of complaints and ensure that appropriate remedial action is taken on the complaints promptly.

(3) The complaints procedure of a Sacco society shall set out the process for dealing with complaints, including the—

- (a) apportionment of responsibility for the actions that led to the complaint including to persons not specifically named in the complaint;
- (b) timeframe for dealing with a complaint;
- (c) timeframe within which to inform the complainant of progress in dealing with the complaint, which shall not be more than three months;
- (d) right to reference or appeal to the Authority or the tribunal where the complaint cannot otherwise be resolved.

(4) A Sacco society shall designate an officer to review and investigate all complaints lodged by members and recommend appropriate remedial action to the chief executive officer of the Sacco society.

(5) A Sacco society shall handle complaints in a fair, appropriate and timely manner, and shall inform the members of the outcome in writing.

(6) A Sacco society shall, depending on the nature of the complaint, provide where a complaint is justified, appropriate restitution and address the weaknesses in its internal systems that led to the action causing the complaint.

(7) A Sacco society shall document all the actions it has taken under the complaints procedure.

(8) A Sacco society or an officer of a Sacco society, who without cause, contravenes or causes a Sacco society to contravene the provisions of this regulation shall be liable to pay to the Authority a financial penalty not exceeding a sum of one hundred thousand shillings.

## 77. Complaints register

(1) A Sacco society shall maintain an accurate and up to date complaints register specifying the—

- (a) date when the complaint is received;
- (b) member or any other person from whom a complaint was received;
- (c) nature of the complaint;
- (d) officer handling the complaint;
- (e) officer against whom the complaint was made or who was responsible for the action that led to the complaint;
- (f) progress in handling the complaint;
- (g) manner or way the complaint was resolved; and
- (h) time it took to resolve the complaint.

(2) A Sacco society may also maintain a summary register of complaints.

(3) A Sacco society shall—

- (a) immediately and in all events within twenty-four hours, inform the Authority of any complaint that is still unresolved, three months after it was received; and
- (b) prepare a quarterly report of the complaints handled in such manner and format as the Authority may determine or direct.

(4) A Sacco society or an officer of a Sacco society, who without cause, contravenes or causes a Sacco society to contravene the provisions of this regulation shall be liable to a financial penalty not exceeding a sum of one hundred thousand shillings.

## 78. Appeals and referrals

(1) Any dispute between a Sacco society and its members or other persons may be settled amicably through alternative dispute resolution mechanisms.

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[Subsidiary]

(2) Where the dispute under sub-regulation (2) is not amicably settled, such a dispute may be referred to the Authority for alternative dispute resolution or to Co-operative Tribunal pursuant to section 67 (3) of the Act, at the instance of either party.

(3) A Sacco society may conduct a satisfaction survey to ascertain the level of member satisfaction of its products and services.

#### PART XIII – REGULATION AND SUPERVISION

### 79. Inspections

(1) The Authority shall be responsible for supervising Sacco societies to ensure compliance with the provisions of the Act, these Regulations, any guidelines or directives issued by the Authority pursuant to the Act, Sacco society's bylaws, policies, procedures and any other applicable law.

(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 and make extracts and copies of 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 inspecting 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 assets;
- (d) risks management framework; 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 cause an on-site inspection to be made by any person authorised by it in writing, of any Sacco society and of its books, accounts and records.

(8) Where the Authority conducts an onsite inspection, the Authority shall—

- (a) compile a report addressing all matters in paragraph (5); and
- (b) present the report and the proposed corrective actions to the Sacco society.

(9) The board of directors of the Sacco society shall within fifteen days of receipt of the report pass a resolution on the implementation of corrective actions and submit a deficiencies restoration plan to the satisfaction of the Authority.

(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 standards.

### 80. Enforcement action

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

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

(3) The Authority may use any or all of the supervisory enforcement actions under section 51 of the Act and shall communicate to each individual Sacco society or officers of a 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, 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 financial soundness of the Sacco Society, or has committed an offence, the Authority shall issue administrative directives regarding measures to be complied with or impose such sanctions to be taken against the said officer as it may deem fit and as provided for under the act and these Regulations.

### 81. Administrative sanctions

(1) In deciding which administrative action to be taken, the Authority shall consider the following—

- (a) the financial condition of a Sacco society;
- (b) the members' interests;
- (c) the interest of the management and the board of directors in the continuation of the business of the Sacco society;
- (d) the ability of the management and directors to manage the Sacco society effectively;
- (e) the contribution of individual officers of the Sacco society to any non-compliance; and
- (f) the local and macro-economic conditions.

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

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

### 82. Cease and desist orders

(1) A cease and desist order shall be issued by the Authority against a Sacco society or an officer thereof where the Sacco society has—

- (a) engaged or continues to engage in any unsafe business practice; and

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[Subsidiary]

- (b) violated or continues to violate the Act, these Regulations, or any guidelines and directives issued by 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.

(3) If the necessary corrections are not made, the Authority may invoke the provisions of section 51 of the Act to safeguard a Sacco society's assets and impose penalties as stipulated in the Act.

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

(5) An officer of a Sacco society who occasions or causes a Sacco society to violate a cease and desist order, guidelines or directives issued by the Authority, shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings.

### 83. Prohibition and removal of officers

(1) The Authority may prohibit any individual seeking to be a director or employee of a Sacco society, if the individual—

- (a) has been charged or convicted with a crime involving monetary loss, fraud, perjury, or breach of fiduciary relationship with a financial institution;
- (b) is adversely mentioned in an inquiry report under the Co-operative Societies Act (Cap. 490) or an inspection report under the Act; an investigation report or inquiry by any national law enforcement and investigative agency;
- (c) has been charged with any offence under the Anti-Corruption and Economic Crime Act (Cap. 65) or Public Officers Ethics Act (Cap. 185B) or Leadership and Integrity Act (Cap. 185C) or in relation to any violation of Chapter 6 of the Constitution;
- (d) is likely to pose a threat to the interest or threaten to impair public confidence in the Sacco society.

(2) 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 longer period as may be determined by the Authority.

(3) 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 or adversely mentioned in connection 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.

(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 or adversely mentioned in connection 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 Authority or Sacco Society may remove an officer from office, if the officer—

- (a) directly or indirectly violates the Act, these Regulations, guidelines, directives or the Sacco society's 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.

(6) 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.

(7) A person aggrieved by the removal or prohibition order may appeal to the Cabinet Secretary.

#### **84. Statutory management**

(1) The Authority shall place a Sacco society under statutory management—

- (a) if the Sacco Society willfully and continuously fails to comply with guidelines or directives issued by the Authority;
- (b) if the Sacco Society has abandoned its core business or does not operate in the members' best interests;
- (c) if the Sacco Society is totally incapable of coping with severe financial problems that need to be brought under control;
- (d) if the Sacco Society 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 the Sacco society is unable to meet its obligations to depositors and creditors or if the core capital falls below fifty percent of the regulatory requirement.

(3) All expenses associated with the statutory management shall be met by the Sacco society.

#### **85. Appointment of statutory managers**

(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 Sacco society or is related to or is an immediate family member to an officer or former officer.

(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, family member of the officer or business associate of the officer which is found to have been advanced on preferential terms or without adequate security made within twelve months prior to the statutory management shall be recalled, and that officer or family member or business associate shall immediately refund the monies advanced and pay any interest due.

#### **86. Assessment of financial penalties**

(1) Where the Authority determines that an officer of the Sacco society has occasioned or caused the Sacco society to suffer loss or potential loss, the Authority shall assess and impose a financial penalty in accordance with section 51(m) of the Act against the officer in a sum equal to such loss or potential loss that the Sacco society has or might have suffered.

(2) Where the officer fails to pay the assessed sum, the Authority may—

- (a) direct the immediate removal of the officer from the service of the Sacco society;

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[Subsidiary]

- (b) prohibit the officer from serving in any cooperative society until the penalty is paid in full; or
- (c) institute civil recovery proceedings of the penalty in the tribunal.

(3) The penalty order shall be issued by the Authority to be served upon the guilty party and a copy to the board of directors, stating the reason for and the amount.

(4) Where the Authority imposes a financial penalty against the Sacco society or an officer of the Sacco society, the assessed amount shall be paid through an electronic funds transfer in favour of the Authority within thirty days upon service of the assessment notice.

(5) A Sacco society or an officer who is aggrieved by any assessment of a financial penalty made by the Authority, may appeal to the Cabinet Secretary.

### **87. Financial penalties for failure to submit reports, returns, etc.**

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

- (a) an officer of a Sacco society who causes a Sacco society to fail to submit reports and information required by the Authority upon being requested to do so shall be liable to pay to the Authority a financial penalty not exceeding one hundred thousand shillings per incident;
- (b) an officer of a Sacco society who causes a Sacco society to submit an incorrect report and information to the Authority upon being requested to do so shall be liable to pay to the Authority a financial a penalty not exceeding one hundred thousand shilling per incident.

(2) The Authority shall before imposing a financial penalty against an officer of a Sacco society—

- (a) give the officer of the Sacco society not less than fourteen days' notice in writing of its intention to impose the financial penalty; and
- (b) consider any representations made to it in writing by the officer of the Sacco society before imposing a financial penalty.

#### PART XIV – INFORMATION SECURITY, PRESERVATION AND BUSINESS CONTINUITY

### **88. Information preservation and management system**

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

(2) A Sacco society shall at all times maintain a robust management information system (MIS), which at the minimum shall be capable of—

- (a) supporting flexible configuration of products and services offered by the Sacco society, and runs on a real-time and relational database;
- (b) comprehensively capturing the members' data and information, including but not limited to members' date of birth, gender, residential physical address, postal address occupation, marital status, photographs and signatures;
- (c) offering complete overview of a members' data and information, including account details and allows drill-down to individual transactions and postings;
- (d) allowing a search for a member using different attributes of the data and information of the member;
- (e) providing members with the transactional features to manage shares and deposits;
- (f) supporting multiple methods of calculating interest including declining balance, annuity and balloon payment;
- (g) supporting loan appraisals given the member's shares, salary income, turnovers, deductions etc;

- (h) enabling member service by presenting personal details as well as information on accounts, loans, guarantors and collateral;
- (i) allowing transactions to be posted real time to the general ledger as configured and which accounts are to be debited or credited for each transaction;
- (j) allowing classification of loans and advances by performance and purpose;
- (k) providing for the generation of comprehensive reports modules with the capability to design new reports and allow filtering and grouping of data;
- (l) ability to produce detailed statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and other prescribed regulatory statements;
- (m) supporting scheduling and export of reports to other electronic formats including Microsoft Excel, Word, CSV and PDF; as well as handling imported data from such electronic formats;
- (n) capability of integration with other payment systems or applications;
- (o) supporting automated and manually triggered archiving of data and information;
- (p) supporting user profile and access rights management;
- (q) capability of providing accurate and real time audit trail of all transactions;
- (r) allowing daily data back-up to an off-site location or recovery centre;
- (s) capability of rolling back to pending transaction and informs the user accordingly in case of a hardware failure or system crash;
- (t) capability of supporting any other requirements as provided in the Act and these Regulations.

(3) A Sacco society may from time to time and shall when directed by the Authority carry out a comprehensive management information systems audit to establish vulnerabilities, weaknesses and risk exposures.

(4) A Sacco society shall—

- (a) submit to the Authority a copy the comprehensive management information systems audit report within thirty days of receipt of the report, without any alterations; and
- (b) prepare an implementation plan which shall include the actions to be taken, responsible parties and the time frame.

### **89. Due diligence on third-party service providers**

(1) A Sacco Society shall not engage the services of third-party providers or vendors for its management information systems and infrastructure unless due diligence has been undertaken to assess—

- (a) the providers' compliance with legal and industry standards including registration, tax compliance and membership or affiliation to professional associations;
- (b) the providers' technical capacity to offer the intended services;
- (c) the providers' governance structures that assures continuity including ownership structure, technical staffing level among others;
- (d) the providers' financial condition including cash flows, audited financial statements; demonstrable financial capability to offer the services;
- (e) the providers' cybersecurity measures including cybersecurity audit, monitoring cyber-attacks;
- (f) the providers' risk management measures; and
- (g) any other matter as the Authority may direct from time to time.

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[Subsidiary]

(2) The Authority may issue guidelines or circulars specifying any other feature that a service provider shall comply with before or prior of being engaged by a Sacco society.

### **90. Critical information and vital records**

(1) A Sacco society shall keep copies of vital records in a safe location; which shall include but not be limited to copies of loan agreements, copies of member application forms, 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.

(2) A Sacco society shall copy all its critical and vital information to a memory device and store in a fireproof safe on a weekly basis provided a Sacco society shall ensure offsite backups are undertaken on weekly basis.

(3) A records 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 information and records means minimum records required to restore Sacco business operations in the event of a disaster, and shall include but not be limited to—

- (a) a list of members' shares;
- (b) non-withdrawable deposits and loan statements for each member's account;
- (c) investments and bank balances; and
- (d) financial reports which lists asset, liability and equity accounts.

(5) A Sacco society shall establish a secure archive for its physical records for future reference, which shall be installed with smoke detectors, fire extinguishers and be protected from rodents, water or moisture.

### **91. Disaster preparedness and business continuity**

(1) A Sacco society shall have a written disaster preparedness plan approved by the board of directors.

(2) A Sacco society's disaster preparedness plan shall take into account the size and complexity of the Sacco society's business operations and other activities, and at minimum shall address—

- (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 alternative locations equipped with the necessary equipment to maintain critical operations for a sufficient time period in the event of a disaster;
- (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;
- (h) a suitable and reliable standby power backup.

#### **PART XV – MISCELLANEOUS PROVISIONS**

### **92. Preparation, etc. of Sacco societies' performance reports**

The Authority shall pursuant to section 22 of the Act prepare and submit to the Cabinet Secretary a report on the operations and performance of the specified non-deposit taking Sacco businesses during that year.



**93. Amalgamations and divisions**

(1) A Sacco society shall not—

- (a) amalgamate with another Sacco society; or
- (b) divide itself into two or more Sacco societies without prior written approval of the Authority.

(2) An application for approval of amalgamation or division of a Sacco society shall be accompanied by—

- (a) a resolution of the general meeting of the Sacco societies on the proposed amalgamation or division;
- (b) due diligence reports on Sacco societies proposed to be amalgamated or divided including their financial soundness, legal and regulatory compliance, products and services, ICT and human capacity;
- (c) an amalgamation or division plan detailing probable asset or share ratios, share adjustments designation of a continuing Sacco society, by-laws, state of guarantee of member deposits, non-conforming assets and liabilities and provisions for notification and payment of creditors;
- (d) the amalgamation agreement;
- (e) the proposed notice of a special general meeting;
- (f) financial statements and statistical reports in respect of the preceding months;
- (g) the combined statement of financial condition; and
- (h) an application for guarantee of members' deposits.

(3) The Authority shall approve or reject the application for amalgamation or division 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 proposed changes in writing, post the information in all of the Sacco society's offices and place the relevant information in a national newspaper of wide circulation.

**94. Electronic submission of returns and information and use of ICT**

(1) Where a Sacco society is required to file, submit or furnish the Authority with any statement, returns, document, data or other information; such statement, returns, document, data or other information, shall unless otherwise directed by the Authority be filed, furnished or submitted through an electronic filing system established by the Authority in accordance with section 53A of the Act.

(2) The Authority may from time to time issue authentication access codes to Sacco societies to access the electronic filing system and shall where necessary cancel authentication access codes.

(3) The board of directors of a Sacco society shall be responsible to the Authority for—

- (a) identifying the designated authorized officers of the Sacco Society who shall be issued with the authentication access codes;
- (b) ensuring that designated authorized officer is a senior officer of the Sacco society capable of authenticating the accuracy, correctness and completeness of any statement, returns, document, data or other information filed, furnished or submitted through an electronic filing system;
- (c) ensuring that chief executive officer of the Sacco society is at all times a mandatory designated authorized officer;
- (d) ensuring that the designated authorized officers do not exceed three officers of the Sacco society at any time;
- (e) notifying the Authority of any changes or intended changes in the Sacco society's authorized officers, including the chief executive officer;

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[Subsidiary]

- (f) ensuring that the authentication access codes issued to authorized officers are not misused to the detriment of the Sacco society or the Authority or any other person.

(4) Where a Sacco society is required to submit or furnish a member of the Sacco society with any statement, returns, document, data or other information; such statement, returns, document, data or other information, may except as otherwise provided in the Act, these Regulations or any other written law, be submitted or furnished to the member through a secure electronic media as may be established by the Sacco society.

#### **95. Unauthorized access or improper use or interference of electronic filing system established by the Authority or Sacco society**

(1) A person who—

- (a) knowingly and without lawful authority, by any means, gains access to or attempts to gain access to any electronic filing system established by the Authority or operated by the Sacco society;
- (b) having lawful access to any electronic filing system established by the Authority or operated by the Sacco society, knowingly uses or discloses information obtained from such system for a purpose that is not authorised; or
- (c) knowing that he is not authorized to do so, receives information obtained from any electronic filing system established by the Authority or operated by the Sacco society, and uses, discloses, publishes, or otherwise disseminates such information,

commits an offence.

(2) A person who commits an offence under paragraph (1) shall be liable on conviction—

- (a) in the case of a natural person, to imprisonment for a term not exceeding three years, or to a fine not exceeding one hundred thousand shillings, or to both such fine and imprisonment.
- (b) in the case of a body corporate, to a fine not exceeding five hundred thousand shillings.

(3) A person who knowingly—

- (a) falsifies any record or information stored in any electronic filing system established by the Authority or operated by the Sacco society;
- (b) damages or impairs any electronic filing system established by the Authority or operated by the Sacco society; or paragraph (c) damages or impairs any duplicate tape or disc or other medium on which any information obtained from any electronic filing system established by the Authority or operated by the Sacco society is held or stored otherwise than with the written permission of the Authority or the Sacco society,

commits an offence.

(4) A person convicted of an offence under paragraph (3) shall be liable to imprisonment for a term not exceeding three years, or to a fine not exceeding one hundred thousand shillings, or to both such fine and imprisonment.

#### **96. Transitional provisions and provisional authorisation**

(1) These Regulations shall—

- (a) upon commencement be deemed to apply to every Sacco society which is carrying out the specified non-deposit taking business; and
- (b) such a Sacco society shall submit to the Authority a written application for authorisation within six months from the date of commencement of these Regulations.

(2) The Authority shall consider any application made pursuant to paragraph (1) within ninety days of receipt of such application, and issue—

- (a) an authorisation certificate in accordance with these Regulations, if the Sacco society meets the conditions specified under regulation 5 of these Regulations; or
- (b) a provisional authorisation certificate for a period not exceeding twelve months, subject to such terms and conditions as may be imposed or endorsed thereon, if the Sacco society has not attained conditions specified under regulation 5 of these Regulations.

(3) A Sacco society issued with a provisional certificate in accordance with sub paragraph (2)(b) shall, in addition to any terms or conditions imposed or endorsed on the provisional certificate by the Authority, on or before the expiry of twelve months after the authorisation ensure that it complies with all the requirements set out under regulation 5 of these Regulations

(4) Where a Sacco society issued with a provisional certificate in accordance with sub paragraph (2)(b) fails to comply with the Transitional provisions and provisional authorisation requirements specified under regulations 5 of these Regulations, the Sacco Society shall immediately cease undertaking specified non-deposit taking business, and the Authority shall invoke the provisions of regulation 8 of these Regulations.

(5) Despite the provisions of sub paragraph (1) the Authority may, at any time and from time to time, and shall, if so directed by the Cabinet Secretary, cause an inspection to be made by any person authorized by the Authority in writing of any Sacco society and of its books, accounts and records, to determine if the Sacco society is conducting specified non-deposit-taking business.

(6) A Sacco society which fails to make an application for authorisation within six months commits an offence.

FIRST SCHEDULE

FORMS

**FORM IA** (r. 5(2))

**APPLICATION FOR AUTHORIZATION**

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. Specified non-withdrawable deposit taking business the Sacco is engaged in;
  - Non-withdrawable deposit taking Sacco business where members deposits equal to or exceed KShs 100 million
  - Non-withdrawable deposits where registration and mobilization of share capital is through digital or other electronic payment platforms
  - Non-withdrawable deposit taking Sacco business where deposits and shares mobilization is by persons ordinarily resident outside the country.

[Subsidiary]

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

No.	Name of Place of Business	Name of Town, or trading centre or market center where branch is located	County where branch is located	Year of Establishment
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- 1.
- 2.
- 3.

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 etc.

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

1. ....from ..... to .....
2. ....from ..... to .....
3. ....from ..... to .....
4. ....from ..... to .....

8. Details of Capital

- (a) Paid-up value .....
- (b) Core capital .....

9. List and type of the Subsidiary of the Sacco Society (This section is MANDATORY)

Name of the Subsidiary	Type (Company or Co-operative Housing, Investment etc.)	Sacco's Shareholding	Directors	Director's Position in the Saccos Society
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10. Particulars of Officers, Officials and Office Bearers (This section is MANDATORY):

a) Directors

List the Full Names of all the Directors, officials or office bearers of the SACCO Society including the date they assumed office; gender and year of Birth.

**PARTICULARS OF DIRECTORS, OFFICIALS AND OFFICE BEARERS OF THE SACCO SOCIETY**

Full Names of the Director	Designation of Director	Date of Assumption of office as Director	Gender Male or Female	Year of Birth	Personal Telephone Number of Director
----------------------------	-------------------------	--	-----------------------	---------------	---------------------------------------

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.

b) Supervisory Committee

Sacco Societies

[Subsidiary]

PARTICULARS OF MEMBERS OF SUPERVISORY COMMITTEE OF THE SACCO SOCIETY

Full Names of the Director	Date of Assumption of office as Member Supervisory Committee	Gender i.e. Male or Female	Year of Birth	Personal Telephone Number
----------------------------	--	----------------------------	---------------	---------------------------

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

c) Senior Management (*This section is MANDATORY*).

List the particulars of ALL Senior Management Officers in the SACCO Society clearly stating their designations; Highest Academic qualification, Professional Qualifications and

Date of Appointment to current position in the table below.

PARTICULARS OF SENIOR MANAGEMENT AND OFFICERS OF THE SACCO SOCIETY

Full Names of the Officer	Designation	Gender i.e. Male or Female	Year of Birth	Personal Telephone Number
---------------------------	-------------	----------------------------	---------------	---------------------------

- 1.
- 2.
- 3.
- 4.
- 5.

11. Names of Bankers and their Address (*This section is MANDATORY*) Provide the particulars of ALL the SACCO Society's Bankers.

PARTICULARS OF BANKERS AND BANK ACCOUNTS OF THE SACCO SOCIETY

Bank Name	Branch Name	Account Number(s)	Nature of Account e.g. overdraft, current, settlement etc.
-----------	-------------	-------------------	--

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

12. 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?

.....  
 If so, give particulars .....  
 .....

[Subsidiary]

13. 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 .....

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 .....

.....

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 .....

Notes:

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

**FORM IB** \_\_\_\_\_ (r. 5(3)(a))

THE FIT AND PROPER TEST

NOTE:

Read the declaration below before completing this form. In case the space provided is inadequate, use additional paper.

1. THE SACCO SOCIETY

(a) Name of the Sacco Society .....

(b) Position of the officer .....

.....

2. PERSONAL INFORMATION

(a) Surname ..... Other Names ..... Gender ..... (MALE/FEMALE)

(b) Previous Names (if any) by which you have been known: .....

(c) Year and Place of birth: .....

(d) Personal Identification Number (PIN) .....

(e) National Identity Card/Passport number and date of issue .....

(f) Postal Address: ..... E-mail .....

(g) Mobile Telephone .....

(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 .....

## Sacco Societies

[Subsidiary]

## 3. EMPLOYMENT/BUSINESS RECORD

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

## 4. DESCRIPTION OF YOUR PAST AND CURRENT ACTIVITIES

## 4.1 SHAREHOLDING (DIRECTLY OWNED OR THROUGH NOMINEES)

Name of Institution	Date of Incorporation	Amount of Shareholding	% of Shareholding	Past Shareholding	Remarks
				A B	

Key:

A: Refers to date of closure or surrender of shares

B: Refers to reasons for closure or surrender

## 4.2 DIRECTORSHIP

Name of Institution	Date of Incorporation	Executive or Non-executive	Position Held in case of executive	Past Directorships	Remarks
				C D	

Key

C: Refers to date of retirement

D: Refers to reasons for retirement or resignation

## 4.3 PROFESSIONAL BODIES

Name of Body	Member No.	Position	Past Memberships	Remarks
			E F	

Key

E: Refers to date of retirement

F: Refers to reasons for retirement or resignation

## 4.4 SOCIAL CLUBS

Club Name	Member No.	Position Held	Past Club Memberships	Remarks
			G H	

Key

G: Refers to date of retirement

H: Refers to reasons for retirement or resignation

## 4.5 BORROWINGS

Name of Borrower	Lending Institution	Type of Facility	Date of Offer	Security Offered	Value of Security	Current Out-standing Balance	Remarks
------------------	---------------------	------------------	---------------	------------------	-------------------	------------------------------	---------

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

## 5. QUESTIONNAIRE

[Subsidiary]

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 .....

.....

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

.....

5.3 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 .....

.....

5.4 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 .....

5.5 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 .....

.....

5.6 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 .....

.....

5.7 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 .....

.....

5.8 Have you ever been declared bankrupt by a court or has a bankruptcy petition ever been served on you?

If so, give particulars .....

.....

5.9 Have you ever been held liable by a court, for any fraud or other misconduct?

If so, give particulars .....

.....

5.10 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 particulars .....

.....

5.11 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 .....

.....

5.12 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) .....

5.13 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.

**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 authorization certificate to carry out the Sacco non-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, and submit myself to the jurisdiction of the Authority in the performance of my duties as an officer of the Sacco society as provided in the Act and the Regulations made thereunder

Name: .....

Signed: .....

Dated at ..... this ..... Day of ..... 20 .....

**WITNESSED BEFORE ME**

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 an authorization certificate to conduct non-deposit taking Sacco business. These include:

[Subsidiary]

(i) Fit and Proper Test-

This should be completed by all persons proposed as directors, supervisory committee 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 IC** (r. 5(7))  
**AUTHORIZATION CERTIFICATE**

AUTHORIZATION No. ....

This Authorization is granted to ..... (*Name of Sacco Society*) CS/NO. .... of ..... (*Address*) authorizes the said Sacco Society to conduct specified non-deposit-taking Sacco business in Kenya. This authorization is issued subject to the provisions of the Sacco Societies Act (Cap. 490B) and the non-withdrawable deposit taking Sacco Business regulations issued there under and to any conditions endorsed here on.

This authorization covers the period from.....to..... for the Sacco Society's head office situated at L.R No..... Road, Town and the following places of business:

Authorized places of business

	Name of place of business	Location	County
1.			
2.			
3.			

The Authority may at any time revoke, amend or restrict this Authorization Certificate 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 .....

SECOND SCHEDULE

OTHER FORMS (r. 13 (1))

**FORM 2A**

**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 Capital Grants

## Sacco Societies

[Subsidiary]

1.1.3	Retained earnings/ Accumulated losses	
1.1.4	Net Surplus after Tax, current year to-date 50%	
1.1.5	Statutory Reserves	
1.1.6	Other Reserves(Include all loss)	
1.1.7	Sub-Total (1.1 .1 to 1.1.6)	
LESS DEDUCTIONS		
1.1.8	Investments in Subsidiary and Equity instruments of Other Institutions	
1.1.9	Other Deductions	
1.1.10	Total Deductions (1.1.8 to 1.1.9)	
1.1.11	CORE CAPITAL (1.1.7 Less 1.1.10)	
1.1.12	Retained earnings and Disclosed Reserves	
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 (Per Balance Sheet)	
2.10	Difference(2.8 Less 2.9)*	
3.	OFF-BALANCE SHEET ASSETS	
4.	CAPITAL RATIO CALCULATIONS	
4.1	Total Asset value of on- balance sheet items as per 2.9 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 (1.1.11/4.3)%	0.0%

[Subsidiary]

4.6	Minimum Core Capital to Assets Ratio requirement	8.0%
4.7	Excess (deficiency) (4.5 less 4.6)	-8.0%
4.8	Retained earnings and Disclosed Reserves to Core capital(1.1.12/1.1.11)	0.0%
4.9	Minimum Retained Earnings and Disclosed Reserves to Core Capital Requirement	50%
4.10	Excess (deficiency) (4.8 less 4.9)	-50%
4.11	Core capital to Deposits Ratio (1.1.11/4.4)%	0.0%
4.12	Minimum Core Capital to Deposits requirement	0.5%
4.13	Excess/(Deficiency) (4.111ess 4.12)	-0.5%

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

Note: This return should be received on or before the 15th 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 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.

**1.1.3 Retained Earnings/Accumulated Loss**

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 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.

**1.1.5 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.

#### 1.1.6 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.

#### 1.1.7 Sub-Total

Enter in this line the sub-total of all the items from 1.1.1 to 1.1.6. DEDUCTIONS FROM CORE CAPITAL

#### 1.1.8 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.

#### 1.1.9 Other Deductions

In this line, enter any other deductible items that have not been dealt with in 1.1.8.

#### 1.1.10 Total Deductions

This is the total of all the items from 1.1.8 to 1.1.9

#### 1.1.11 Core Capital

Core Capital is the deduction of line 1.1.7 from line 1.1.10

#### 1.1.12 Retained earnings and Disclosed Reserves

Enter the sum of retained earnings, statutory reserves, 50% accumulated profits to date (if it is a loss enter the whole amount), and other reserves as disclosed in the balance sheet or statement of financial position

## 2. ON-BALANCE SHEET ASSETS

### 2.1 Cash

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

### 2.2 Government Securities

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

### 2.3 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.

### 2.4 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

[Subsidiary]

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 guarantee's by the Sacco Society

4.0 CAPITAL RATIO CALCULATIONS

Compute as per the formulae provided in the form.

4.4 Total Deposits

Total deposit figure as reported in the Balance Sheet for the period should be indicated in thcs 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 following end of every quarter

FORM 2B (r. 15(1))

LIQUIDITY STATEMENT RETURN

	<b>Sacco Society:</b>	<b>CS No. ....</b>
	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 commercial banks	
	Less:	
2.2	Time deposits with banks more than 90 days	
2.3	Overdrafts and matured loans/ Advances from domestic banks	
3	Balances with Financial Institutions other than banks	
3.1	Balances with Other Sacco societies	
3.2	Balances with Other Financial Institutions other than Banks and Sacco societies	

Sacco Societies

[Subsidiary]

	Less:		
3.3	Balances due to other Sacco societies		
3.4	Balances due to Financial Institutions		
3.5	Matured Loans and Advances received from Financial Institutions other than banks		
4	GOVERNMENT SECURITIES		
4.1	Treasury Bills		
4.2	Treasury Bonds/Bearer Bonds		
5.	NET LIQUID ASSETS (1-4)		
6.	OTHER LIABILITIES		
6.1	Matured Liabilities		
6.2	Liabilities Maturing within 91 Days		
6.3	Total Other liabilities		
	Less :		
7	LIQUIDITY RATIO		
7.1	Net Liquid Assets (5)		
7.2	Total Short term Liabilities 63+7.3		
7.3	Ratio of(8.1/8 2)%	0.0%	
7.4	Minimum Holding of Liquid Assets Requirement	10.0%	
7.5	Excess/Deficit (8.3-8.4)	- 10.0%	

\* 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

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 notes and Coins

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 2.1 above whose maturities exceed 90 days.

---

[Subsidiary]

2.3 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 Other Financial Institutions**

3.1 Balances with other Sacco Societies

Enter the total of all balances placed with other financial institutions including Nacos including accrued interest.

3.2 Balances with other 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.

3.3 Balances due to other 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 90 days.

3.4 Balances due to financial institutions other than banks

Enter the amount held in other financial institutions whose maturities exceed 90 days.

3.5 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.

4.2 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 0 the reliabilities

5.1 Matured Liabilities

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

5.2 Maturing within 90 days

Enter the sum of all liabilities that will mature within 90 days from the date of the return. This should include scheduled loan repayments for the next three months.

5.3 Total other liabilities

Enter the total of items 6.1— 6.2

**6. 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.



## Sacco Societies

[Subsidiary]

FORM 2C (r. 24)

## STATEMENT OF DEPOSITS RETURN

Name of Sacco Society

CS No.

Financial Year:

Start Date:

End Date:

No.	Range	* Type of Deposit	No. of A/Cs	Amount KShs '000'
1	Less than 50,000	Non withdrawable		
2	50,000 to 100,000	Non withdrawable		
3	100,000 to 300,000	Non withdrawable		
4	300,000 to 1,000,000	Non withdrawable		
5	Over 1,000,000	Non withdrawable		
TOTAL				

Note: This return should be received on or before the 15th day of the month following end of every quarter

\* 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

FORM 2D (r. 44)

## RISK CLASSIFICATION OF ASSETS AND PROVISIONING

## RISK CLASSIFICATION OF ASSETS AND PROVISIONING

Name Of Sacco Society: CS/No.

Financial Year:

Start Date:

End Date:

## PORTFOLIO AGEING REPORT

No.	Classification	A No. of A/Cs	B Outstanding Loan Portfolio (KSh.)	C Required Provision	D Required Provision Amount (KSh.)
1	Performing			1%	
2	Watch			5%	
3	Substandard			25%	
4	Doubtful			50%	
5	Loss			100%	
	Sub-Total				
	Rescheduled/ Renegotiated Loans				

[Subsidiary]

6	Performing	1%
7	Watch	5%
8	Substandard	25%
9	Doubtful	50%
10	Loss	100%
	Sub-Total	
	GRAND TOTAL	

Note: This return should be received on or before the 15th 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 Office

.....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.

FORM 2E

(r.49)

## RETURN ON INVESTMENT

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	Financial assets -Land & Building, equipment (Per balance sheet)	
1.7	Land & Building (Per balance sheet)	
1.8	Subsidiary (per Balance sheet)	
1.9	Related Entity (e.g Housing ) as per Balance Sheet	
2.0	Land and buildings and equipment to total Assets Ratio (1.6/1,2)%	
2.1	Maximum Land & Building and equipment to Total Asset requirement	10%
2.2	Excess (deficiency) (2.0 less 2,1)	
3.0	Land & Buildings to total Assets Ratio (1.7/1,2)%	
3.1	Maximum Land & Building to Total Asset requirement	5%
3.2	Excess (deficiency) (3.0 less 1.1)	
4.0	Financial investments to Total Deposits liabilities Ratio (15/13)%	
4.1	Maximum financial investments to Total Deposits liabilities Ratio %	30%
4.2	Excess (deficiency) (4.0 less 4.1)	
5.0	Subsidiary investment to Core Capital Ratio (1.8/1.1)%	
5.1	Maximum Subsidiary investment to Total assets Ratio %	30%
5.2	Excess (deficiency) (5.0 less 5.1)	
6.0	Subsidiary investments to Total Deposits liabilities Ratio (1.8/1.3)%	
6.1	Maximum Subsidiary investments to Total Deposits liabilities Ratio %	5%
6.2	Excess (deficiency) (6.0 less 6.1)	
7.0	Related Entity investment to Core Capital Ratio (1.9/1 .1)%	
7.1	Maximum Related Entity investment to Total assets Ratio %	30%
7.2	Excess (deficiency) (7.0 less 7.1)	
8.0	Related Entity investments to Total Deposits liabilities Ratio (1.9/1.3)%	
8.1	Maximum Related Entity investments to Total Deposits liabilities Ratio %	5%
8.2	Excess (deficiency) (8D less 8.1)	

[Subsidiary]

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

FORM 2F

(r. 50(2)(a))

## STATEMENT OF COMPREHENSIVE INCOME

Sacco Society:

CS:

Financial Year:

Start Date:

End Date:

## STATEMENT OF COMPREHENSIVE INCOME

Period .....

Period .....Prior

Current Year

Year

KSh. '000'

KSh. '000'

Ref No.

1.	Financial Income	0	0
1.2.	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
3.1	Government Securities		
3.2	Placement in Banks, Samos and similar financial institutions		
3.4	Commercial Papers, notes and bonds		
3.5	Collective Investments Schemes		
3.6	Derivatives		
3.7	Equity investments in subsidiaries and related entities		
3.8	Investments in companies - shares/stocks		
4.	Financial Expense	0	0
4.2	Interest Expense on Deposits		
4.3	Cost of External Borrowings		
4.4	Dividend Expenses(on member shares)		
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

## Sacco Societies

[Subsidiary]

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
12.	Net Income (After Taxes and before Donations)	0	0
13.	Donations	0	0
14.	Net Income/ (After Taxes and Donations)	0	0

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

.....  
 .....

Note: This return should be received on or before the 15th day of the following quarter  
 FORM 2G r.50(2)(b))

## STATEMENT OF FINANCIAL POSITION

Sacco Society: CS:  
 Financial Year:  
 Start Date:  
 End Date:

Ref No.	ASSETS	Period ..... Current Year KSh. '000'	Period .....Prior Year KSh. '000'
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 - Treasury Bills/bonds,		
3.2	Placement in Commercial banks, Saccos and similar financial institutions		
3.3	Commercial papers, notes and Bonds		
3.4	Collective Investments Schemes		
3.5	Derivatives		
3.6	Equity investments in subsidiaries and related entities		
3.7	Investments in companies - shares/stocks		
4.	Net Loan Portfolio	0	0

Sacco Societies

[Subsidiary]

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	Non withdrawable deposits (BOSA member deposits)		
8	Accounts Payables & Other Liabilities	0	0
8. 1	Tax Payable		
8.2	Dividends Payable		
8.3	Deferred Tax Liability		
8.4	Retirement Benefits Liability		
8.5	Other Liabilities		
8.6	External Borrowings		
	Total Liabilities	0	0
	EQUITY		
9.	Share Capital		
10.	Grants & Donations		
11.	Retained Earnings	0	0
11.1	Prior Years' Retained Earnings		
11.2	Current Year's Surplus		
12.	Other Equity accounts	0	0
12.1	Statutory Reserve		
12.2	Other reserves		
12.3	Revaluation Reserve		
12.4	Proposed Dividends		
12.5	Adjustments to Equity		
	Total Equity	0	0
	Total Liabilities and Equity	0	0

AUTHORIZATION

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

.....Sign .....Date:.....

Name of Authorizing Office

.....Sign.....

Date:.....

Name of Countersigning Officer

Note: This return should be received on or before the 15th day of the following quarter

FORM 2H (r. 50(2)(c))

STATEMENT OF OTHER DISCLOSURES

Sacco Society:

Financial Year:

## Sacco Societies

[Subsidiary]

Start Date:

End Date:

## OTHER DISCLOSURES

31st Dec  
Current Year  
KSh. '000'31st Dec Prior  
Year  
KSh. '000'

Ref No.

1	NON-PERFORMING LOANS AND ADVANCES		
1.1	Gross Non-Performing Loans and Advances		
	Less:		
1.2	Interest in Suspense		
13	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%
45	Excess/(Deficiency) (43-4.4)	-10%	-10%
4.6	Institutional Capital to Total Assets Ratio		

**FORM 2H** (r. 50(2)(c))

## STATEMENT OF OTHER DISCLOSURES

Sacco Society:

Financial Year:

Start Date:

End Date:

## OTHER DISCLOSURES

31st Dec  
Current Year  
KSh. '000'31st Dec Prior  
Year  
KSh. '000'

Ref No.

1	NON-PERFORMING LOANS AND ADVANCES
1.1	Gross Non-Performing Loans and Advances

[Subsidiary]

	Less:		
1.2	Interest in Suspense		
1.3	Total Non-Performing Loans and Advances (1.1-12)	0	0
	Less:		
1.4	Allowance for loan loss		
1.5	Net Non-Performing Loans (13-1.4)	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		

NOTES FOR COMPLETION OF ANNUAL AND QUARTERLY 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 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)



2.1 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.

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

3.2 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.

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

3.4 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 45).

4.1 Financial Expense on Deposits and External Borrowings: Total of Interest and Fee Expense on Deposits (Line 42) and External Borrowings (Line 43)

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

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[Subsidiary]

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 II (Line 8.1) or— Non-Operating Expense II (Line 8.2)

9.1 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 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.

9.2 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. Taxes**

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

**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. Donations**

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)]

STATEMENT OF FINANCIAL POSITION

ASSETS

**1. Cash and Cash Equivalent**

1.1 Cash in hand: Both local and foreign notes and coins held in the tills and vaults.

1.2 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

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[Subsidiary]

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

3.2 Placement in Commercial banks, Saccos and similar financial institutions:

3.3 Commercial papers, notes and Bonds:

3.4 Collective Investments Schemes:

3.5 Derivatives:

3.6 Equity investments in subsidiaries and related entities:

3.7 Investments in companies - shares/stocks:

#### 4. Net Loan Portfolio

4.1 Gross Loan Portfolio: These are loans and advances.

4.2 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:

5.1 Tax Recoverable: This is tax that is recoverable as a result of overpayment of tax in the previous periods.

5.2 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

5.3 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. 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

10.1 Tax Payable: This relates to tax liability computed but not yet paid.

10.2 Dividends Payable: These are dividends that have been declared but not yet paid.

10.3 Deferred Tax Liability: These are taxes payable in future periods in respect of taxable temporary differences.

10.4 Retirement Benefits Liability: These are the retirement benefits liability as accounted for under IAS 19.

10.5 Other Liabilities: These include all other liabilities due not specified elsewhere.

10.6 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 of directors 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.

#### OTHER DISCLOSURES

#### 1. NON-PERFORMING LOANS AND ADVANCES

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

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

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

[Subsidiary]

1.4 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.

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

## 2. INSIDER LOANS, ADVANCES AND OTHER FACILITIES

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

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

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)

4.7 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

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### THIRD SCHEDULE

[r. 66(2)]

### CODE OF CONDUCT

#### 1. Application of the code of conduct

This Code of conduct is applicable to directors, supervisory committee, chief executive officers and the management of sacco societies registered under the Act.

The board of directors shall ensure that the said officers of the Sacco Society are aware and adhere to the prescribed Code of Conduct.

## 2. Conflict of interest

Directors, supervisory committee, 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:

- (a) Outside financial interest:—
  - (i) Where a director, supervisory committee member, 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

(1) Directors, supervisory committee members, chief executive officers and employees shall not use the Sacco's name or facilities for personal advantage, be it in political or economic transactions.

(2) Directors, supervisory committee members, 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.

(3) Confidentiality of relations and dealings between the Sacco Society and members is paramount. Consequently, directors, supervisory committee members, chief executive officers and employees must take precaution to protect the confidentiality of member information and transactions.

(4) 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.

(5) 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 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

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[Subsidiary]

with the law, judged on normal business criteria basis and fully documented and authorized by the board of directors or any other independent party.

Insider lending and dealing

**5.** A Sacco Society shall not grant or permit to be outstanding any advances loans or credit facilities which are unsecured or advances, 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
- (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, supervisory committee or directors in excess of the limits prescribed in the regulations.

**8.** 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.

**9.** When a Sacco Society contravenes any of the provisions of the 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 and 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 installments shall forthwith stand disqualified from holding office and be liable to pay the outstanding amount.

**10. Penalties**

A Sacco Society which fails to comply with any direction of the Authority or permits a disqualified director or officer to continue holding office shall be guilty of an offence and liable to fine of not more than one hundred shillings.

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**THE SACCO SOCIETIES (SPECIFIED NON-  
DEPOSIT TAKING) (LEVY) ORDER, 2023**

ARRANGEMENT OF SECTIONS

1. Citation
2. Levy Payable
3. Assessment of levy amount
4. Time of payment of levy
5. Pro-rated levy

SCHEDULES

Annual Sacco Societies Levy

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**THE SACCO SOCIETIES (SPECIFIED NON-  
DEPOSIT TAKING) (LEVY) ORDER, 2023**

[Legal Notice 178 of 2023]

**1. Citation**

This Order may be cited as the Sacco Societies (Specified Non-Deposit Taking) (Levy) Order, 2023.

**2. Levy Payable**

(1) A Sacco society undertaking a specified non-deposit taking business shall, subject to paragraph 3, pay to the Authority an annual levy to be known as the Annual Sacco Societies Levy at the rate prescribed in the Schedule.

(2) The levy paid under subparagraph (1) shall be based on the total non-withdrawable deposits held by the Sacco society as indicated by the audited financial statements of the Sacco society for the immediately preceding financial year.

(3) Notwithstanding any other provision of this Order, the maximum levy payable under this Order shall not exceed six million shillings.

**3. Assessment of levy amount**

The Authority shall, upon issuing a Sacco society with an authorisation certificate under regulation 5 of the Sacco Societies (Non - Deposit Taking Business) Regulations, 2020, assess the levy payable by that Sacco society under this Order.

**4. Time of payment of levy**

The levy payable by a Sacco society shall be due and payable to the Authority—

- (a) not more than thirty days after the assessment under paragraph 3; and
- (b) after the Authority has served the Sacco society with a written notice of the payment of the levy.

**5. Pro-rated levy**

The levy payable by a Sacco society under this Order in the year on which the Sacco society has been issued with an authorisation certificate under regulation 5 of the Sacco Societies (Non-Deposit Taking Business) Regulations, 2020, shall be the equivalent to the pro-rated amount of the levy payable with effect from the month following the month of the issuance of the authorisation certificate.

SCHEDULE

[para. 2(1)]

Annual Sacco Societies Levy

<b>S/No.</b>	<b>Rate of Annual Sacco Societies Levy</b>	<b>Period of imposition of the levy payable</b>
1.	0.10%	From the 1st January, 2024, to the 31st December, 2024
2.	0.13%	From the 1st January, 2025, to the 31st December, 2025
3.	0.14%	From 1st January, 2026, to 31st December, 2026

[Subsidiary]

4.	0.15%	From 1st January, 2027, until reviewed
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