CHAIRMAN'S REPORT TO THE MEMBERS OF UNSACCO SOCIETY LTD.
DURING THE 31ST ANNUAL GENERAL MEETING HELD ON 16TH MARCH, 2007

The Provincial Co-operative Officer invited Guests, my fellow Co-operators, Ladies and Gentlemen, good afternoon. It gives me great pleasure to present to you the UNSACCO annual report for the year ended 31st December, 2006. I am particularly pleased to note that once again the Society achieved two major milestones during the year by successfully implementing the Front Office Services Activity (FOSA) and the emerge computer system which made it possible to integrate FOSA and back office operations and operate online on a real time basis. It also gives me a lot of pride to inform you that UNSACCO has not only become the most profitable SACCO in the country but it is also declaring a high dividend rate of 15% for the year 2006.

Operating environment

All indications are that the economy performed well in the just concluded financial year. Central Bank of Kenya statistics indicates that the annual growth rate was 5.8%. The sectors that contributed to this growth include tourism, telecommunications, energy, construction and manufacturing. The average annual inflation rate increased to 14.5% during the year owing to increased fuel and food prices. The year saw a significant decline in interest rates with the benchmark 91 day Treasury bill rate dropping from 8% to 5.7% as at December, 2006. During the year, the shilling recorded mixed reactions against the major currencies; strengthening against the Dollar, and the Yen while depreciating against the Sterling Pound and the Euro to close at Kshs.69.63, Kshs.59.47, Kshs.136.79, and Kshs.92.03 respectively. The year saw a lot of activity in the capital market driven by the excitement created by initial public offers and excess liquidity in the market. The NSE 20 Share Index closed the year at 5646 points up from 3973 as at 31st December 2005, a 42% appreciation.
Performance of UN SACCO.

Given the favorable macro-economic conditions, the financial Sector remained stable. It is in this environment that the results of the UN SACCO up to 31st December, 2006, show continued growth in all parameters coupled with improved efficiency. I am pleased to report that the Society recorded an overall increase in turnover of 65% from Kshs.185.4 million to Kshs.305.9 million in 2005. The after tax surplus in relative terms also increased to Kshs.23.4 million compared to Kshs.22.5 million in the year 2005.

During the year under review, mobilisation and lending of resources was as vibrant as ever. The members’ deposits rose by 22.9% to stand at Kshs.1.76 billion up from Kshs.1.431 billion in the year 2005. On the other hand loans to members balance rose from Kshs.1.31 billion in the year 2005 to Kshs.1.87 billion which accounts for an increase of 42.5%.

Society Achievements
I am also pleased to report to you that for the 10th year in a row, your Society was commended and rewarded with eight coveted trophies for excelling in various competitive slots, which included lowest expenditure, best loan services and best management practices within its category of SACCO’s nationally, as well as in the overall SACCO sub-sector in the country. I wish to assure you that your Society's Management Committee will not relax as a result of these successes. Instead these good results only help to motivate us to even greater achievements in the future. Needless to say the Committee will continue to rely on your full support through suggestions and constructive criticism.

Appropriation of the Net Surplus

We are pleased to recommend to you for your consideration, a declaration of interest on members' deposits at the rate of 15% for the year ended December 31, 2006, the highest in the history of the UN SACCO, up from 11% in the previous year. However, members are of course at liberty to declare a lower rate. At this point, let me also caution that such a high rate of interest on your deposits may increasingly become difficult for the Society to sustain in an
environment of declining yield on Treasury bills/bonds, one of our main investment destinations.

The Future Strategic Plans

To survive in the coming years, our Society will need to continue exploring the potential of expanding its operations by seeking and introducing new and innovative products and services in order to broaden its revenue base and also improve service delivery to its membership. It is in recognition of this fact that the Management Committee has put in motion a process that will facilitate the Society’s Strategic planning process sometimes in June this year. The Management Committee also plans to carry out a comprehensive review of our operations and develop an action plan. The terms of reference of the review comprises; review of business process, management information systems, accounting and internal control procedures. This assignment is expected to commence in the coming month. Once formulated, the strategic plan will be implemented in phases over a five-year period. Members will be consulted at the appropriate time to give their input for the success of the entire process.

The Front Office Services Activity (FOSA)

I am happy to report that FOSA was successfully implemented during the year under review following your approval during the Annual General Meeting held on 16th March 2005. We are aware that some of our members have raised concerns over the commissions that we charge on cash withdrawals at the FOSA. While some members appreciate the need to charge commissions for sustainability of this vital service, others feel that the service should be free. We would like to assure our members that commissions charged at the FOSA are quite minimal and are only meant to cover direct cash handling costs which includes bank withdrawal commissions, insurance and salaries at the Front Office. These commissions are not in any way higher than the bank charges. Furthermore, members’ balances in the FOSA savings accounts earn interest at the rate of 3%.

Currently the Society levies withdrawal commissions based on the following graduated scale.
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<th>Amount withdrawn KSHS.</th>
<th>Commission charged KSHS</th>
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<tr>
<td>1-500,000</td>
<td>100</td>
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<tr>
<td>500,001-1,000,000</td>
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<tr>
<td>1,000,000-2,000,000</td>
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The introduction of FOSA has contributed positively to the performance of the Society through improved profitability which has led to the declaration of a high dividend rate during the year 2006 under review. The Management Committee will need your continued support in order to make FOSA more successful for the benefit of all members.

**Loan Protection Insurance**

The Management Committee implemented the loan protection Scheme through Cooperative Insurance Company during the year under review and the scheme has worked well. The annual premiums are expected to vary annually based on the level of our loan Portfolio. This scheme will continue being financed through members monthly insurance subscriptions of Kshs.200/= per month. This arrangement will ensure that the Society is adequately covered at any level of lending and also ensure sustained profitability.

Members are reminded that loan guaranteeing carries with it a responsibility and therefore they should exercise their right to guarantee carefully in order to safeguard their interest and that of the Society. This is necessary because it is the responsibility of the loan guarantor to pay the guaranteed loan in case the loanee defaults.. Therefore, every member should know the people they are guaranteeing well and also monitor their actions as far as loan repayment are concerned. This will ensure that cases of non-performing loans are minimized or eliminated altogether.

During the last three years the Society has made a lot of improvement on the UNSACCO website whose address is http://www.unsacco.unon.org. I believe all of us are reaping benefits from this initiative, having been able to access all the information relating to the AGM for the
last three years through the homepage. I would like to urge our members to visit our website regularly in order to catch up with the latest developments in the UN SACCO and also make suggestions for further improvements. We wish to thank you all for your support in this move.

The Management Committee would like to invite you to deliberate on these important matters and provide your full support as it begins to implement the policy changes for the good of the Society. I am very grateful for the support and understanding that my Committee and the staff have received from the entire membership in steering the Society thus far.

I wish to say a few words concerning our staff, your employees. Many of you have been around for sometime and have had occasion to interact with our staff. I hope that I am speaking for all of you when I say that they have done an excellent job under very difficult and demanding circumstances. Please join me in congratulating them for a job well done. My Committee is aware that improvement is required in this area and training of the staff is continuing to bring out the best in them.

**Election of the Management and the Supervisory Committee**

Following the enactment of the new Co-operative Societies Act, the Management Committee will be expected to serve two terms of three years each while one Supervisory Committee member will retire annually on rotational basis. The current Management Committee was elected in the year 2004 and therefore they are expected to seek fresh mandate next year. However during this year’s AGM one member of the Management Committee namely; **Mr. Stephen Wang’ombe** who has served as the Credit Committee Chairman for the last 18 years is due to retire from active service in the United Nations next month. You will also be expected to elect another member to fill one vacant position in the Supervisory Committee occasioned by the retirement by rotation of **Ms. Eunice Omino** who Served as the Chairlady of the committee and although eligible for re-election, has opted not to seek another mandate.. I wish to appreciate the dedication and commitment demonstrated by Mr. Wang’ombe and Ms. Omino in their service to the Society. You will, therefore, at an appropriate stage during this meeting be called upon to exercise your right to vote and fill these vacancies in the Management and the Supervisory Committees.
Acknowledgement

Last but not least, I would like to once again thank you all in your respective capacities (as our customers/shareholders/members; Management and Supervisory Committee members and Staff) for the support, understanding, enthusiasm, confidence, drive and hard work as well as your individual and collective contribution towards the attainment of the remarkable growth and performance of the Society.

I also wish to recognise and appreciate the role of other UN SACCO supporters and friends in the business, i.e. the Co-operative Officers from the Ministry of Co-operative Development, KUSCCO; the Auditors - M/s. Osoro & Company; our bankers, the Kenya Commercial Bank Ltd, Citibank Bank Ltd and Co-operative Bank of Kenya Ltd, our Legal Advisors – M/s. Ombonya & Company Advocates and several others who may not be with us here today. Finally, please allow me to wish you all happy Easter holidays and a very successful year 2007.

Thank You and God Bless you all.

Mary Githiomi

CHAIRPERSON