# SISI TUNA FAULU

Faulu

A MEMBER OF THE OLDMUTUAL GROUP

## Annual Report 2022

For the year ended December 31, 2022

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WAKENYA
TUFAULU!

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# Faulu at a **GLANCE**

## FAULU PURPOSE:

**CHAMPIONING MUTUALLY POSITIVE FUTURES EVERYDAY**

## VISION

To be our customers' **most trusted lifetime partner**, passionate about helping them achieve their financial goals.
And, by **helping generations achieve those goals**, help build the financial prosperity of the societies, businesses and shareholders we engage with.

## VALUES

- Champion the Customer
- Respect for each other & Communities we serve
- Trust & Accountability
- The power of Diversity and Inclusion
- The Lordship of Jesus Christ
- Always Act with Integrity
- Agile Innovation that makes a Difference

**948** Employees

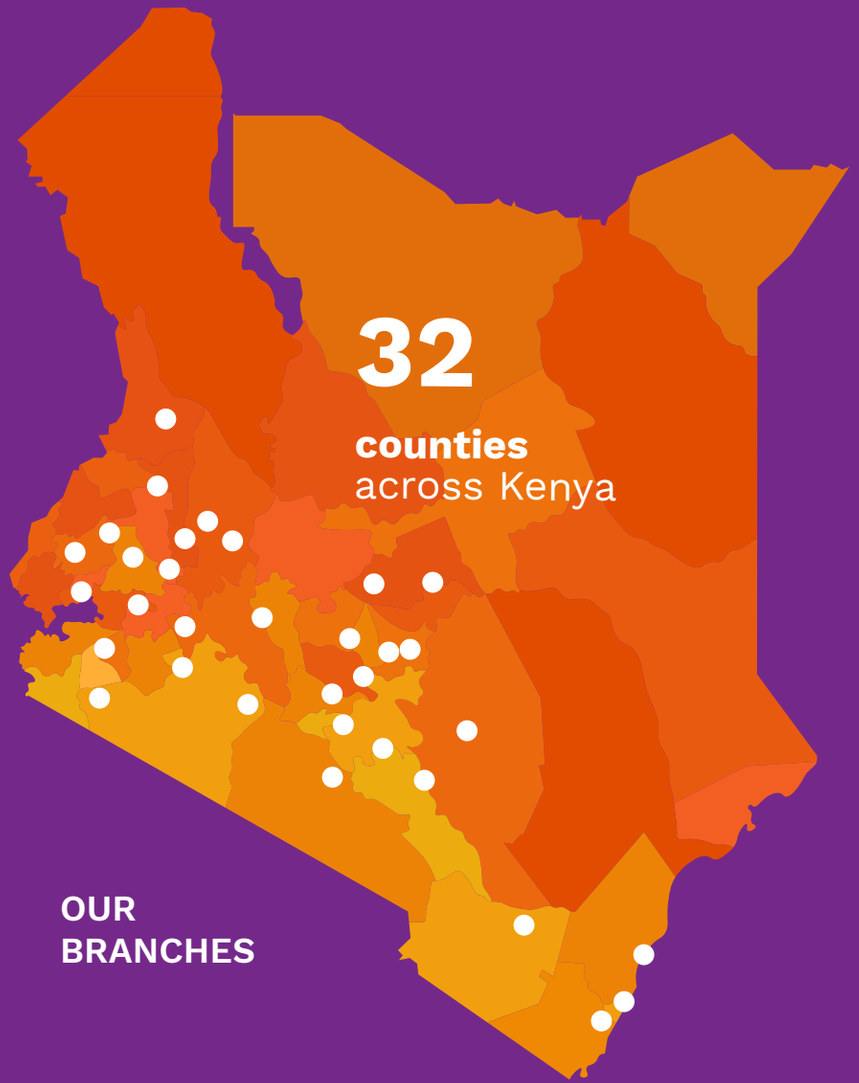
**53** **Banking** outlets

**536** **Agents** countrywide

**103,526** **Mobile Banking** Registered Customers

VISA

Use Faulu Visa Card, in over **2000** ATMs Countrywide



**32**
**counties**
across Kenya

## OUR BRANCHES

1. **Baringo**
   - Kabarnet
2. **Bomet**
   - Bomet
3. **Bungoma**
   - Bungoma
   - Kimilili
4. **Busia**
   - Busia
5. **Elgeyo Marakwet**
   - Iten
6. **Embu**
   - Embu
7. **Homabay**
   - Homabay
8. **Kajiado**
   - Rongai
   - Kiserian
9. **Kakamega**
   - Kakamega
   - Mumias
10. **Kericho**
    - Litein
    - Kericho
11. **Kiambu**
    - Thika
    - Kiambu
    - Limuru
12. **Kilifi**
    - Kilifi
13. **Kisumu**
    - Kisumu
14. **Kitui**
    - Mwingi
    - Kitui
    - Matuu
15. **Kwale**
    - Ukunda
16. **Laikipia**
    - Nyahururu
    - Nanyuki
17. **Machakos**
    - Machakos
18. **Makueni**
    - Emali
19. **Meru**
    - Meru
20. **Migori**
    - Migori
21. **Mombasa**
    - Changamwe
    - Kengeleni
    - Moi Avenue
22. **Muranga**
    - Muranga
23. **Nairobi**
    - Ngong Road
    - Kawangware
    - OTC
    - Kimathi Street
    - Kariobangi
    - Kayole
    - Githurai
    - Gikomba
24. **Naivasha**
    - Naivasha
25. **Nakuru**
    - Nakuru
    - Molo
26. **Narok**
    - Narok
27. **Nyeri**
    - Nyeri
    - Karatina
28. **Siaya**
    - Bondo
    - Ugunja
29. **Transnzoia**
    - Kitale
30. **Taita-Taveta**
    - Voi
31. **Uasin Gishu**
    - Eldoret
32. **West Pokot**
    - Kapenguria

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# A truly mutual **STRATEGY**

**STRONG FOUNDATION**

Built on **177** YEARS **of history**

Our refreshed strategy builds on a strong foundation of serving customers for more than 32 years and through Old Mutual for more than 177 years via our trusted brand and enviable distribution scale. We consider the environment that we operate in, changing customer needs driven by technology, fierce competition, and sustainability to stay relevant to all stakeholders in the longer term.

Our strategy is deliberate in building on our foundation by aggressively driving brand differentiation, providing solutions that meet changing customer needs and enabling a seamless transition between face to face and digital journeys.

We draw on our talented and engaged employees to achieve these aspirations. We remain mindful of our responsibility to society and the important role we play in ensuring positive futures for our customers and communities.

**WHY DO WE EXIST?**

Our purpose is to Transform lives and enable financial goals by keeping our promises

**WHERE DO WE WANT TO BE?**

Our vision is to be our customers' 1st choice to sustain, grow and protect their prosperity

**WHAT WE WILL ACHIEVE**

We believe that delivery on the CARES pillars will enable us to be our customers' 1st CHOICE and responsibly build the MOST VALUABLE BUSINESS in our industry

- Strong financial base
- Trusted Brand
- Enviable distribution force
- Agile and resilient
- 948 committed employees across Kenya
- Meaningful contributor to the green economy
- Driving Transformation

**C** We will make it evident that Faulu Microfinance Bank Cares through solutions and actions that support customers, their families and communities

**A** We will aim to be always present first by ensuring that propositions and advice are available to customers when and how they need them and through our brand that is always top of mind

**R** We will build rewarding digital engagement through considerate and effective use of advice and customer data

**E** Our high performing engaged employees will make meaningful contributions to achieve our purpose, vision and values

**S** We will deliver solutions that lead in service and performance, for insurance, investments and supporting



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# Strategic **PILLARS**

## FAULU BANK CARES

We demonstrate "care" by executing our Responsible Business framework through our seven focus areas, to deliver shared value and make a positive impact to all of our stakeholders.

Our focus areas are: Responsible Investing, Environmental Impact, Financial Education and Inclusion, Education, Skills Development, Diversity and Inclusion and Entrepreneurship.

To drive financial inclusion and support customers through financial education, we offer them accessible and affordable solutions.

## ALWAYS PRESENT FIRST

We will maintain our dominance across our physical channels. We plan on translating our success in these channels with digital solutions that provide a seamless and integrated customer experience across all touch points.

Enhancing our physical reach with a digital presence will help us to be "always present".

This will be supported by a strong brand presence so that when customers think of financial services, they think of us first.

## REWARDING DIGITAL ENGAGEMENT

We will convert our understanding of our customers' goals and circumstances to provide personalised, regular and meaningful engagement.

We will do this through financial advice, financial education, rewards, data driven nudges and a full suite of targeted products.

This will enable us to offer customers the right solutions at the right time, enabling them to reach their financial goals.

## ENGAGED EMPLOYEES

We want all our employees to connect with, and be fully aligned to our purpose, vision and strategy. By creating an environment where employees find a deep sense of connection and meaning in our purpose, we can ensure that they will be passionate about delivering meaningful customer experiences at every point of the customer journey.

We are also driving the requisite culture shifts to create an agile and execution-focused organisation.

## SOLUTIONS THAT LEAD

For solutions where we are already competitive and market leading, we will focus on enhancing their flexibility and ease of use. We will continuously improve solutions and launch innovative and refreshed propositions.

In this way, customers will be able to meet all their primary financial services needs with us with easy access.

# OUR **OBJECTIVES**

## C

To be known as a financial services provider that truly cares for its stakeholders and delivers shared value.

## A

To establish brand preference in Kenya and the continent through increased depth and scale of face to face and digital distribution.

This will enable us to establish and maintain a leading market share.

## R

To deliver a meaningful and personalised customer experience, that is integrated across digital and face to face mediums.

## E

Building a compelling employee value proposition that attracts and retains key talent. Creating an engaged workforce that embraces new ways of working to deliver on strategic initiatives and always puts our customers first.

## S

The delivery of new and refreshed Retail, and MSME product propositions that will differentiate our savings, lending and protection solutions.

These propositions will enable key shifts that our customers require including customised solutions and the best advice delivered through a seamless experience.



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# Our service **OFFERING**

Faulu Microfinance Bank provides a one-stop shop solution for our customers' financial needs.

Our collective financial solutions are tailor-made to suit our customer's short-term and / or long-term goals.

We redefined our business goal as a traders' bank and took steps to better deliver on our business promise.

This saw us expand our banking channels as well as going an extra mile in understanding our consumers and their needs so as to serve them better.

**Banking is now easier than ever!**



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# Our Customer Segment **PROFILE**

## BLENDED RETAIL CVP

A 42 year old high school teacher, mother of 4, rents a house, earns a salary of around KES 70,000 net, runs a side business of a small clothes boutique.

Her & her husband bought land in his rural home where she farms maize, vegetables and rears cows for milk production which she sells to the neighbours.

Jane is great friends with her work colleagues and they have formed a chama for investments. They are currently pooling their resources to buy land and build rentals on the outskirts of town.

## BIASHARA CVP

A 45 year old father of 5 and a business owner with 5 employees. He has finished building his house, drives a pick up and owns a secondary car mostly used by his wife who has a small shop.

He is serious about the state of the economy and his investments.

He is also takes care of his extended family and aging parents, supports community initiatives and is dedicated to his friends and socializes over weekends to catch up on business and networking.

He is grounded in tradition but is immersed into the global sphere.

## MICRO BANKING CVP

A 28 year old second hand clothes seller, lives in a small rented house with his wife and 3 year old son. His wife works in a salon and also sells beauty products. He has a small chicken shed in his rural home and supplies chicken and eggs and would like to expand this business.

He partners with friends to buy clothing bales and is part of a trade association. He promotes his business on social media and receives payment on mpesa.

He jumps on to business opportunities to boost his income and has a strong saving culture to pool money for small side businesses.

He considers himself a connected, digitally savvy, future-forward Kenyan who keeps up with current affairs.

## Blended CVP Offering

- Salary backed solutions
- Convenient banking for side hustles
- Insurance solutions e.g. Education plans
- Life touching solutions e.g.
  - Home improvement
  - Water solutions

## Biashara CVP Offering

- Transactional solutions
- Forex Solutions
- Pre-approved loans
- Trade finance
- Investments options
- Insurance solutions with IPF
- Personalized services

## Micro Banking CVP Offering

- Hassle free banking
- Digital Solutions
- Convenient short-term loans
- Personalized services



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#wakenyatufaulu
With my business account, I have moved on from just selling, to growing and expanding my business
Mimi
NinaFAULU
Biashara Banking | Digital Banking | Personal Banking
Chama Banking | Trade Banking | Insurance Solutions

# CORPORATE INFORMATION

## Board of **DIRECTORS**

| | |
|---|---|
| George A. Maina | Chairman |
| Apollo N. Njoroge | Managing Director |
| Peter J. Mogan* | Non- Executive Director |
| Sophia Mukoba | Non- Executive Director |
| Njeri Ndehi | Non-Executive Director |
| Arthur Oginga | Non-Executive Director |
| Michael Monari | Non- Executive Director |
| Kenneth Kariuki | Non- Executive Director |
| Caroline Gathii | Non- Executive Director |
| Samuel Matsekete | Non- Executive Director |

**Audit Committee**
Sophia Mukoba
Peter J. Mogan*
Caroline Gathii

**Innovations and Technology Committee**
Njeri Ndehi
Michael Monari
Kenneth Kariuki
Apollo N. Njoroge**

**Risk and Compliance Committee**
Caroline Gathii
Sophia Mukoba
Peter J. Mogan*
Apollo N. Njoroge**

**Remuneration and Nominations Committee**
George A. Maina
Sophia Mukoba
Arthur Oginga
Apollo N. Njoroge**

**Credit Committee**
Michael Monari
Kenneth Kariuki
Samuel Matsekete
Apollo N. Njoroge**

**Registered office**
Ngong Lane
Off Ngong Road
P.O. Box 60240-00200
Nairobi, Kenya

**Company Secretary**
James W. Murage
Ngong Lane off Ngong Road,
P.O. Box –60240-00200
Nairobi, Kenya

**Principal Banker**
Standard Chartered Bank
Kenya Limited
Yaya Centre Branch
P.O. Box 40310- 00100
Nairobi, Kenya

**Auditors**
Ernst and Young (EY) LLP
Certified Public Accountants (Kenya)
Kenya Re Towers, Upper Hill, Off Ragati Road
P O Box 44286-00100
Nairobi, Kenya

**Principal Lawyers**
Daly & Inamdar Advocates
6th Floor, ABC Towers, ABC Place,
Waiyaki Way
P.O. Box 40034 - 00100
Nairobi, Kenya

*Canadian **Managing Director



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# Board of **DIRECTORS**

**George A. Maina**
Non-Executive Chairman

**Apollo N. Njoroge**
Managing Director

**Peter J. Mogan**
Non-Executive Director

**Sophia Mukoba**
Non-Executive Director

**Njeri Ndehi**
Non-Executive Director

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Arthur Oginga
Non-Executive Director
Michael Monari
Non-Executive Director
Kenneth Kariuki
Non-Executive Director
Caroline Gathii
Non-Executive Director
Samuel Matsekete
Non-Executive Director

# Board of Directors' **EXPERIENCE**

## George A. Maina

**George** has served as the Director and a Board Member of Faulu Microfinance Bank since 2003.

He has also served as the Director of both AIB Capital (since 2005), and ICEA Lion Life (since 2007). George is a business consultant who also sits on other boards including NIC Bank Limited and Afrika Investment Bank Ltd, among others.

George has been in the corporate world in senior positions for over 30 years. He worked for a major global oil company at senior levels in Kenya, Caribbean and Central America, West Africa and East Africa including at Africa level.

Through this experience, and in other organisations he has been involved in, he has gained expertise in leadership, strategy development and implementation, governance, organization development/ re-engineering and capacity building, change management, risk management, finance and investment management, mergers, acquisitions and exits, HR, sales and marketing, citizenship and stakeholder management, as well as investment banking.

He holds a Bachelor of Technology from the Loughborough University in the UK.

## Apollo N. Njoroge

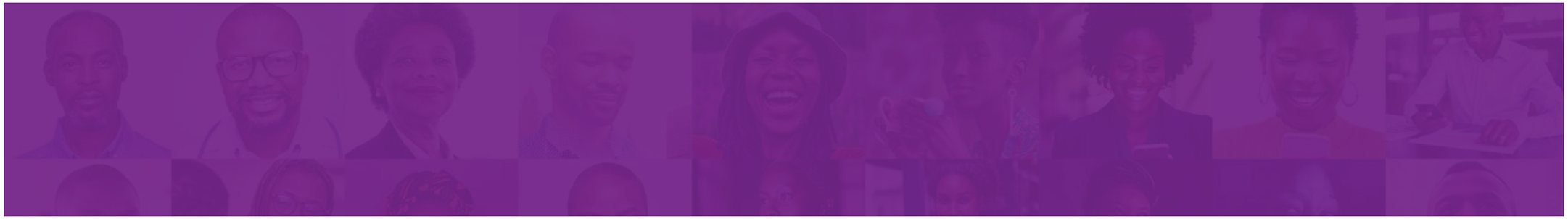
**Mr. Njoroge,** an experienced financial executive with over 25 years' experience in Retail, Micro, Small and Medium Enterprises Banking across East Africa.

He joined Faulu Microfinance Bank limited as the Managing Director and Chief Executive Officer with effect from 19th December 2016.

Prior to his appointment, he was Acting Managing Director, Equity Bank in Uganda, where he also held the positions of Executive Director and Chief Operations Officer. He has held the following positions at Equity Bank in Kenya; General Manager in charge of Business Relationships and Head of Business Growth & Development. He has also worked in African Banking Corporation Limited and Investments & Mortgages Bank.
He is a graduate of IESE Business School in Spain and holds a Masters' Degree in International Business Administration (Finance Option) from United States International University and a Bachelor of Science Degree (Hons) in Mathematics and Physics from University of Nairobi. Additionally, he is an alumnus of the Strathmore Business School - Executive Management Programs.

Apollo's achievements during his tenure at Equity, were commendable and include Strategy formulation and implementation which led to the acquisition of a micro finance institution in Uganda and its eventual growth into a fully-fledged profitable bank in the top 10. He is also credited with leading the change process for the rollout of a new banking software, documentation of procedures and supporting the team to transition to a commercial bank.

His expertise is instrumental in executing Faulu's strategy of championing alternative banking channels, prudent risk management practices and enabling dreams in the Region.



**Peter,** for the past thirty-seven years, has been active as a lawyer, businessman and mediator in BC and Ontario. He has worked closely with his business clients in a wide variety of tasks from business formation through financings, mergers and acquisitions, contract negotiations, international trade, dealings with government, tax planning and securities compliance. Peter's clients range from smaller independent businesses to publicly listed companies. He has been involved in numerous prospectus exempt offerings and other financings.

Peter's experience as an entrepreneur has led to an approach that is practical: finding legal solutions that make business sense. This practical, entrepreneurial approach, combined with a relational style, is brought to business negotiations. Peter also has extensive experience facilitating leadership development, strategic planning, conflict management and community building workshops for business, government and not-for-profit organizations on six different continents.

He currently serves as a director on or corporate secretary to the boards of several BC companies as well as a number of charities. He is also actively involved with Global Mothers, a new social enterprise targeting poverty alleviation in the Developing World through trade. Skiing, cycling, movies and reading round out Peter's primary interests.

## Peter J. Mogan

## Sophia Mukoba

**Sophia Mukoba** is a seasoned finance professional with over 18 years' experience spanning across Audit, Control Management Accounting and Commercial Finance. Sophia has held various senior Finance roles and is currently the Finance Director for Unilever East Africa.

Prior to joining Unilever, she worked at British American Tobacco Kenya Limited and Deloitte & Touche.

She is a holder of a Bachelor of Commerce (Accounting Option) and a Masters of Business Administration both from University of Nairobi. She is also a Certified Public Accountant (Kenya) and a member of the Chartered Institute of Management Accountants (CIMA).

Her expertise in financial and audit matters will be of great value to the Faulu Board.

# Board of Directors' **EXPERIENCE ...Cont**

## Njeri Ndehi

**Njeri Ndehi** has over 11 years of professional experience in banking and finance. She has worked for Citibank Kenya, has been managing relationships with government entities, top tier local corporates, and multinationals.

At Citibank South Africa, Njeri worked in Corporate Finance where she was involved in syndicated loan transactions, euro loans and club deals. Njeri has several years of experience in relationship management in Absa Kenya and Stanbic Bank. At Stanbic, she also served as the Head of Corporate Banking and was responsible for customers in various sectors such as manufacturing, agriculture, non-bank financial institutions and non-governmental organizations.

In addition to working in the financial space she has over 10 years' experience in the educational sector.

Njeri is professionally trained in leadership, coaching, relationship management, selling, credit and corporate governance. She has served in boards across industries such as Finance, Education and Real estate.

Njeri holds a Bachelor of Law Degree from the University of Warwick and a Masters in Banking and Finance Law from the London School of Economics. Njeri has appeared twice on the Business Daily of Top 40 Under 40 Women in Kenya, in the banking and education categories.

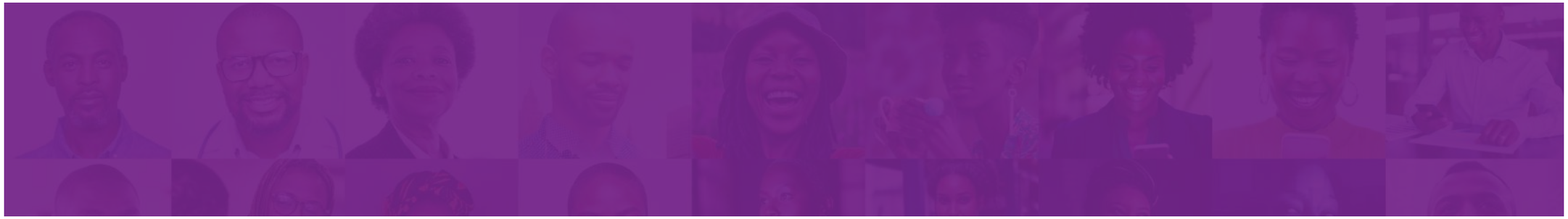
## Arthur Oginga

**Arthur** is the Group Chief Executive Officer (GCEO) UAP Old Mutual Group East Africa.

He has over 25 years' experience in executive and leadership positions including serving as the Group Chief Operations Officer and Group Chief Financial Officer, for the Old Mutual Rest of Africa business and the Acting Group Chief Financial Officer for the UAP Old Mutual Group.

He has also served in various senior leadership positions within the financial services sector across Africa. His other directorships include various UAP Old Mutual Group subsidiaries and FDH Bank.

He holds a Bachelor of Arts Degree (Economics and Sociology) from the University of Nairobi and is a member of the Institute of Certified Public Accountants Kenya (ICPAK) and Institute of Certified Public Accountants Uganda (ICPAU).



**Michael** is an experienced Corporate Executive of over 25 years' experience mainly in banking. He is highly skilled in Strategy & Business Planning, Business Development, Negotiations, Budgeting, General Banking, Credit Analysis, Trade Finance, etc. He has strong entrepreneurship focus and holds a Master's Degree in Global Management from The University of Salford, UK among other qualifications. Michael is passionate about MFI, Fintech, Social Finance, and is an Alumni of the Said Business School- University of Oxford, UK' s Social Finance Programme and Strathmore Business School, ISBI Programme.

Michael has worked for several leading corporations in Africa's financial services sector, including with the KCB Group, Credit Bank Plc, and Ecobank Group. Internationally he worked with International Trust Bank Plc. in Nigeria, African Management Services Company (AMSCO) Ghana, and lately with Ecobank Group in Togo, Ghana, Malawi Kenya, and Uganda.
Michael serves in various boards including; Kenya Re Insurance Corporation, a listed/ public company, CFS Asset Management Limited which is regulated by Capital Markets Authority(CMA), KEPSA (Kenya Private Sector Association), KNCCI (Kenya National Chamber of Commerce), (EAA) East African Association and (BCCK) British-Kenya Chamber of Commerce.

Michael's professional memberships include; Chartered Institute of Bankers (ACIB) the UK; Institute of Directors, Kenya, Nigeria & Uganda and Kenya Institute of Management. He is also a member of premier Karen and Muthaiga Country Clubs.
He is currently the Chief Executive Officer of Longitude Finance, Kenya. He believes in giving back to society and to that he is a member and serves as President of The Rotary Club of Lavington.

## Michael Monari

**Ken Kariuki** is a professional business, brands and marketing strategist, with a robust career spanning over 25 years. Ken is passionate about building brands and businesses and has been involved in consulting and CEO advisory for the last 15 years. He is a partner at Brand Integrated Consulting, an award-winning brand and business strategy advisory firm with a footprint across Africa.

Prior to consulting for ambitious organizations, he managed the sales, market share and profitability performance of notable brand portfolios from companies, such as Nestlé, Reckitt Benckiser and East African Breweries.

Named "Trainer of the Year" by the Chartered Institute of Marketing (CIM), Ken is an avid trainer, and gives back through coaching and training of young marketing and commercial professionals.

He always sets out to contribute to the growth of businesses, through consumer understanding and strategy.

He holds a Masters of Business Administration from the University of Indore, and a Bachelor of Arts (Management) from Bhopal University. He is a member of the Marketing Society of Kenya, a trainer at the International School of Advertising, a facilitator of topical discussions in marketing, strategy and related areas, and an influential speaker in matters brand and strategy.

Ken advises CEOs on strategic positioning and business turnarounds. His knowledge and relevant practical experience in brand management, marketing strategy and business strategy will be invaluable to Faulu Microfinance Bank, as it ambitiously drives towards its Strategic Intent.

## Kenneth Kariuki

# Board of Directors' **EXPERIENCE ...Cont**

## Caroline Gathii

**Caroline** has twenty years multi-sectoral and regional professional experience in governance, risk and financial management. She excels at creating systems and processes. She has hands on experience in various sectors including manufacturing, education, health, hospitality, County Governments, Development Partners, Not for Profit amongst others. She has extensive skill in: risk mapping, risk implementation support, risk evaluation, risk monitoring, business continuity plans, public financial management, governance, assessments, training amongst others. She commenced her career at PwC, then moved to KPMG East Africa and then to the European Union. She is currently managing a boutique risk advisory company, First `1Idea Consulting (FIC) Limited.

Caroline serves in the Audit and Risk Committee as an external Expert at Africa Economic Research Consortium (AERC). Her role on the board is to provide expert advice in relation to enterprise management risks and internal control systems, accounting and grant management policies and practices, and internal and extern audit functions. She is the current President of the Organization of Women in International Trade, OWIT Nairobi. OWIT Nairobi has a membership database of 1,350 members. Her responsibilities include: providing strategic leadership, ensuring the implementation of the OWIT Nairobi strategy, designing suitable programs for the members along the four key objectives: Access to Markets, Access to Finance, Capacity Building and Mentorship. She is also a Board Member at the Wetlands International Board.

Caroline holds a Master's Degree in Financial Management, a Degree in Bachelor of Science in Accounting and has an International Certification in Risk Management from the Institute of Risk Management (IRM) in the United Kingdom. She is also a Certified Public Accountant of Kenya. She is a member of the Institute of Certified Public Accountants of Kenya (ICPAK), the Institute of Human Resource Management (IHRM) and the Kenya Institute of Supplies and Management (KISM).

## Samuel Matsekete

**Sam** was the Managing Director of First Capital Bank (previously Barclays Bank of Zimbabwe Limited) having been promoted from being its Chief Finance Officer. During his tenure as the bank's managing director, he lead the transition of the bank from Barclays to First Capital.

Sam worked as Chief Finance Officer and Company Secretary for another insurance company listed on the Zimbabwe Stock Exchange at the time.

He was part of the team that set up Old Mutual Asset Managers (now Old Mutual Investments Group) in Zimbabwe where he held the roles of Operations Executive and Head of Portfolio Management. Outside the financial services sector, Sam worked at senior executive levels for entities in the manufacturing and mining sectors.

Sam attended a leadership development program run by Barclays Plc in conjunction with the Duke University. He holds a Bachelor of Accountancy Honours Degree from the University of Zimbabwe and a Master of Business Leadership from the University of South Africa. He is a Chartered Accountant and a member of the Institute of Bankers (Zimbabwe).

Sam started his career as an articled clerk with KPMG and was Assistant Audit Manager by the time he left to pursue a career in commerce.

#wakenyatufaulu
With one account that manages my salary and also lends me money to continue pursueing my side passion
Mimi
NinaFAULU
Biashara Banking | Digital Banking | Personal Banking
Chama Banking | Trade Banking | Insurance Solutions

# Senior **MANAGEMENT**

**Apollo N. Njoroge**
Managing Director

**Julius Ouma**
Head of Finance
and Strategy

**Rose Kimani**
Head of Retail banking,
Branches and Bancassurance

**May Nyaga**
Head of Human Capital

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# Senior Management **EXPERIENCE**

## Apollo N. Njoroge

**Mr. Njoroge,** an experienced financial executive with over 25 years' experience in Retail, Micro, Small and Medium Enterprises Banking across East Africa.
He joined Faulu Microfinance Bank limited as the Managing Director and Chief Executive Officer with effect from 19th December 2016.

Prior to his appointment, he was Acting Managing Director, Equity Bank in Uganda, where he also held the positions of Executive Director and Chief Operations Officer. He has held the following positions at Equity Bank in Kenya; General Manager in charge of Business Relationships and Head of Business Growth & Development. He has also worked in African Banking Corporation Limited and Investments & Mortgages Bank.

He is a graduate of IESE Business School in Spain and holds a Masters' Degree in International Business Administration (Finance Option) from United States International University and a Bachelor of Science Degree (Hons) in Mathematics and Physics from University of Nairobi. Additionally, he is an alumnus of the Strathmore Business School - Executive Management Programs.

Apollo's achievements during his tenure at Equity, were commendable and include Strategy formulation and implementation which led to the acquisition of a micro finance institution in Uganda and its eventual growth into a fully-fledged profitable bank in the top 10. He is also credited with leading the change process for the rollout of a new banking software, documentation of procedures and supporting the team to transition to a commercial bank.

His expertise is instrumental in executing Faulu's strategy of championing alternative banking channels, prudent risk management practices and enabling dreams in the Region.

## Julius Ouma

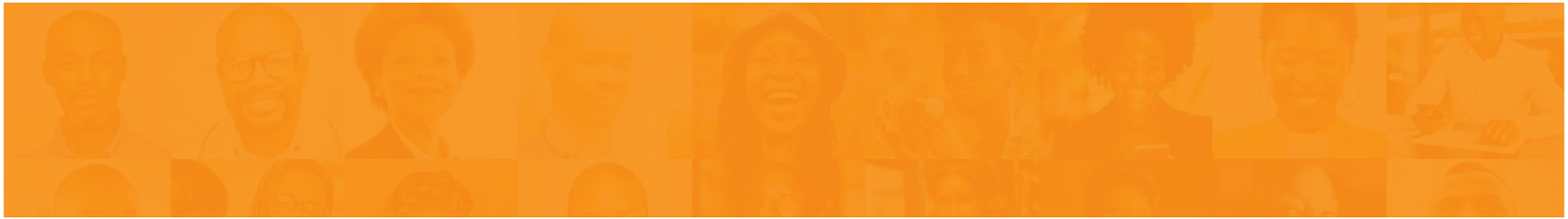
**Julius Ouma** was appointed as the Head of Finance & Strategy for Faulu Microfinance Bank effective September 13th, 2021. Julius has over 15 years of extensive experience in financial services, communication and manufacturing industries.

He started his career as a Graduate Trainee at East Africa Breweries Ltd (EABL). He handled over eight different roles in Finance, Strategy and Project management.

His last role at EABL as the Head of Business Performance and Strategy for the EABL Group (Part of Diageo Plc) where he oversaw the overall strategy, business planning and performance management across the group.

Thereafter, he joined Barclays Plc (currently known as Absa) as the Head of Finance for Retail and Business banking and later took on more responsibilities as the Head of Business Insights and Analytics for the entire Bank.
Prior to joining Faulu Microfinance Bank, Julius was the Finance Director at MultiChoice Kenya where he oversaw Finance and Strategy for core business units in Kenya (DStv, GOtv, Showmax and Local Productions Kenya Ltd).

He holds a Bachelor of Commerce Degree in Finance from Strathmore University, ACCA (UK) and he is currently undertaking his MBA -Strategy from the University of Nairobi.



**Rose Kimani** the Head of Retail banking, branches and Bancassurance at Faulu Micro Finance Bank. She is a seasoned Microfinance banker with over 25 years' experience in asset and liability growth as well as quality management. Rose has served in Faulu in various capacities.

She has grown from being a Credit officer to Branch Manager to Manager Business Development to Senior Business Development Manager to the Head of Business Development to the Head of Retail Banking and lastly to her current position.

Some of her achievements include; Pioneering the Check -off Lending and Automation of Bancassurance system in Faulu.

She has been a key resource in the Faulu Transformation journey. Rose also prides herself in being a solid mentor and coach.
She holds a Master's degree in Social Dynamics and a Bachelor of Arts degree in Sociology.

Rose has been certified by the Frankfurt Business school on SME lending and attended Executive Leadership Trainings from Daystar and Strathmore University.

Rose Kimani is one of the privileged few who have won the prestigious award in Banking: **The Life Achievement Award in Banking.**

## Rose Kimani

**May Nyaga** joined Faulu as the Head of Human Capital with effect from 23rd August 2021.
May is a Fellow of the Institute of Human Resource Management and a passionate Human Resource practitioner with 15 years of progressive experience in multiple sectors that vast from G4S Security Systems, Rentokil Initial (K) Ltd, Rafiki Microfinance Bank and Letshego Kenya Ltd. Prior to joining Faulu she was the Head of Human Resources at The Copy Cat Ltd.

May excels in providing leadership and guidance on strategic Human Resource Management, developing frameworks that align to the business strategy that builds a culture of continuous improvement that offer efficiency to drive organisational growth, productivity, and employee experience. She successfully created fully fledged Human Resource Departments at Rentokil Initial (K) Ltd and Rafiki Microfinance Bank and overseeing existing HR Functions that drive innovative initiatives that address today's business challenges of attaining revenue goals, controlling expenses, attracting, developing, and retaining talent while achieving business objectives. She was responsible for developing the Group Talent Management Strategy and Centre of Excellence at Letshego Holdings Ltd overseeing 11 Subsidiaries located in East Africa, West Africa, and South Africa.

May is a Certified Professional Coach, Certified Genos Emotional Intelligence Practitioner, ISO9001:2015 Lead Auditor and she has participated in various in Human Resource and Leadership Trainings. She is a holder of Bachelor of Commerce in Finance and completing MSc. In Human Resource Management at the University of Nairobi. She is a frequent contributor of the Daily Nation and has participated in both local and international conferences as a panelist and moderator to share her expertise and experience in Human Resource.

## May Nyaga

# Senior Management **EXPERIENCE ...Cont**

## James Murage

**James** joined Faulu as the Head of Legal Services in June 2021. He is an Advocate of the High Court of Kenya with post qualification experience of more than 14 years.

Prior to joining Faulu, he was the Head of Legal at Civicon Limited (a construction Company), He has worked as the Head of Legal at Jamii Bora Bank (now Kingdom Bank PLC) and has been a Senior Legal Officer at CBA (now NCBA PLC).

James brings to the team a wealth of legal experience in banking and corporate law having been an in-house counsel for more than 10 years. He holds a Bachelor of Laws Degree (LLB) from the University of Nairobi and is a Certified Public Secretary (CPS).

## Maureen Mbori

**Maureen** joined Faulu in October 2016 as the Head of Treasury and is now in charge of Treasury, Institutional Banking and Partnerships at Faulu bank. She has over 10 years' experience in the banking industry after previously working for National Bank as Fixed Income & Money Market Dealer, Eco- Bank Kenya as Asset and Liability Officer, NIC Bank as Fixed Income & Money Market Dealer and Treasury Officer at I&M Bank.

Maureen has successfully managed the bank's treasury function by ensuring efficient Portfolio Management, Financial Risk management, Liquidity Risk Management and Investment Income analysis. Her vast experience has seen her lead the bank in debt acquisition, diversification of treasury products and growth of the bank's balance sheet size.

Maureen Graduated with First Class Honors in Bachelor of Science in Information Technology, she also holds an MBA in Strategic Management and is ACI Certified.

She has attended a number of trainings including Aspire Leadership training at Strathmore School of Business, derivatives training courtesy of NSE and Dreadnought Capital South Africa Bloomberg, Reuters Proficiency Training and Thomson Reuters Seminar amongst others.

**Ms. Mose** has over 11 years' experience in auditing and has been an external and internal auditor. She has supported various companies in various capacities mostly banks, insurers and telecommunication companies.

She joined Faulu Microfinance Bank limited as the Head of Internal Audit on 1st July 2022. Prior to her appointment, she was the Internal Audit Manager (IT) for Old Mutual Holdings East Africa. She has also worked with Family Bank, Co-operative Bank, Diamond Trust Bank, and Ernst & Young LLP.

Ms. Mose is a Certified Public Accountant and a member of the Institute of Certified Public Accountants, a Certified Internal Auditor and a member of the Institute of Internal Auditors, a Certified Information Systems Auditor and a member of ISACA, and a Certified Ethical Hacker and a member of the EC-Council. She holds a Bachelor of Science degree in Computer Science from Jomo Kenyatta University of Agriculture & Technology, and is pursuing a Master of Business Administration from the University of Nairobi. She has further undertaken training in leadership, change management, and innovation.

Emily has made significant contribution to the control environment of various organisations in her capacity as an auditor and adviser. Her involvement has been on effectiveness and efficiency at strategic and operational levels. She continues to contribute to the systems of internal controls at Faulu Microfinance Bank limited.

## Emily N. Mose

## Paul K. Githinji

**Paul Githinji** joined Faulu Microfinance Bank as the Head of Operations with effect from 8th November 2021. Paul is a highly experienced banker with over 19 years' experience in Branch Operations, Central Operations, Customer Experience, Internal Controls, Business Process Innovation and executing projects.

His previous experience has been at Equity Bank Ltd where he was the Senior Manager Operations based at the Head Office in various capacities spanning Transaction Processing, Project Management (CBS Upgrade), Branch Support, and COO's office.

While at Equity Bank, he was instrumental in the digitization journey undertaken by the bank as well as rollout of various systems to improve efficiencies. Prior to that he held various positions in various branches culminating in being the Branch Manager at the Ridgeways Branch.

He holds a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi and is currently pursuing a Master's in Business Administration degree from the same university. He also attended Strathmore Business School where he graduated with a certificate in Program for Management Development. He has undergone various leadership courses over the years.

# Senior Management **EXPERIENCE ...Cont**

**Fridah Mutua**

**Fridah** is currently the Head of Marketing, Communications and Research at Faulu Microfinance Bank having worked at the Bank's marketing department at different levels for the last 10 years. She joined the bank in 2012 as a Research and development Officer and has grown through the various department levels to lead the marketing team.

Her work experience has enhanced her strategic thinking and ability to develop market led brand and communication strategies. In her current role, Fridah oversees all aspects of Marketing, Communications, Brand, Product Development and CVP management Fridah holds a Master of Business Administration Degree in Marketing and a Bachelor of Arts in Communication both from the University of Nairobi.

She has also achieved various professional certifications including Marketing Master class from the Africa Brand Leadership Academy, Applied Research from Strathmore University and STATA certification for Data Science Software, Statistical package for Social Scientists among other trainings.

Faulu
A MEMBER OF THE OLDMUTUAL GROUP

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# CHAIRMAN'S Statement

**To our shareholders and clients, to my fellow Board members, our leadership, staff, and partners as well as the communities we serve, I am pleased to present to you Faulu Microfinance Bank Limited (the "Bank") 2022 Annual Report and Financial Statements for the year ended 31 December 2022. The financial statements include consolidated financial statements of the Bank and its subsidiary (together, the "Group").**

The financial year began with divergent global economic prospects partly reflecting unequal access to vaccines and policy support, compounded by inflationary pressures driven by pandemic related supply-demand mismatches. During the second half of the year, global economy faced disruptions arising from the conflict in Ukraine, commodity price increases, and the impact of monetary policy tightening in advanced economies. Despite the challenging external environment, Kenya's economic performance rebounded supported by recovery in services and industry sectors, following the easing of COVID-19 restrictions.

**Financial performance**

Overall, our results show evidence of resilience, despite the performance remaining below target against a challenging economic period. The Group recorded a profit before tax of Shs 15 million in 2022 compared to a loss of Shs 490 million in 2021, while the Bank posted a loss of Shs 14 million in 2022 compared to a loss of Shs 522 million in 2021. The Bank reduced its loss before tax significantly due to the new strategies implemented by the Board and management in 2022. The group deferred tax asset closed at Shs 308 million while the after-tax loss closed at Shs 301 million.



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The gross loan book reduced by 15% from Shs 17.9 billion in 2021 to Shs15.2 billion in 2022.This decline in the loan book led to a reduction in interest income by 18%. The bank has continued to reprice its deposit book in order to reduce the cost of funding, interest expense on deposits decreased from Shs 1.8 billion in 2021 to Shs 1.4billion in 2022.

## Digitization of the Bank

We continue positioning the Bank as a full financial services provider in order to grow the transaction volumes. All eligible new to bank clients are being onboarded to mobile banking via USSD and the Digi Cash App.

We continue to resource strategically as we pivot towards a "traders bank" and build capacity for relationship management touch points with transactions being pushed to digital platforms.

Mobile banking onboarding has seen

**65,612**

clients onboarded to the platform between January 2022 to December 2022.

A total of

**103,526**

clients were on mobile banking channel as at 31 December 2022.

## Operating Environment

The Kenyan operating environment has been on a continuous inflationary pressure and elevated global risks that has brought about tightening of the monetary policy, most notably the increase of CBR to 8.75% in November 2022. The Monetary Policy Committee (MPC) met last on 23rd January 2023 and made the decision to keep the rate unchanged mainly anchored on expectation of easing inflationary pressure on the account of deployed government measures on food imports, and the need to allow previous rate hikes to be transmitted in the market. The MPC is expected to hike the CBR further in Q1 2023 by about 25-50 basis points to support the depreciating Kenya Shilling.

## Effects of Ukraine war to the Kenyan Economy

Impact on the Kenyan economy exposure to the war in Ukraine is largely through trade linkages. Kenya's exports to Russia and Ukraine in 2021 were 1.4 percent and 0.1 percent, respectively, of total exports and comprised mainly tea and cut flowers. Kenya imports about 40 percent of its wheat from Russia and Ukraine. As a result of the war, domestic prices of wheat, fertilizer and petroleum products have increased. There is limited exposure of the banking sector to this crisis.

## Inflation and Interest Rates

The Kenya Shilling depreciated by 9.1% against the US Dollar in December 2022, to close at Shs 123.4, from Shs 122.4 recorded at the end of November 2022, partly attributable to increased dollar demand from energy and general importers, against a slower supply of hard currency. Forward looking, we expect the shilling to weaken towards Shs 130.0 level on account of high global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand from oil & energy sector as well as manufacturing, need for Government debt servicing and continued hike in USA Fed interest rates to a range of 4.25%-4.50% in December 2022.



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## Business Results

The non-performing loans ratio deteriorated from 21.91 % in December 2021 to 28.1% in December 2022. This is attributable to slowdown in disbursements, delayed payments resulting from effects of county new government transitions, high inflation and economic slowdown leading to many businesses deficient performance, employees lose jobs or experience pay cuts, negatively impacting clients from honouring their financial obligations.

We continued to experience delayed employer payments which impacted the Retail Segment with an NPL of Shs.410 million mainly from Counties and Universities as well as slow reduction of the un-booked and under booked loans.

Total Group's assets decreased by 18% to Shs 22.7 billion in December 2022 compared to Shs 27.8 billion in 2021. Gross loans and advances to customer decreased by 15% from Shs 17.9 billion in 2021 to Shs 15.2.0 billion in 2022. Decrease in loans and advance to customers is mainly attributable to low disbursements during the year with Gross disbursements and accelerated loan take over by competitor Banks due to removal of interest capping.

Group's customer deposit declined by 25% from Shs 21.4 billion in 2021 to Shs 16.1 billion in 2022. Decline largely attributed to outflows as a result of deposit interest repricing as a Bank's strategy to reduce cost of funding.

## Industry Non-Performing Loans (NPLS)

CBK credit officer survey report for December 2022 indicated that the asset quality, measured by gross nonperforming loans to gross loans ratio improved from 13.7 percent in September 2022, to 13.3 percent in December 2022. This was due to a 0.8 percent decrease in gross NPLs and a 2.3 percent increase in gross loans.

The Banking industry remains stable and resilient as it registered improvements on the following key areas:
Asset base grew by 10% increasing to Shs.6.6trillion in 2022 from Shs.6.0trillion in 2021 on the back of enhanced capital adequacy, liquidity buffers and leveraging on technology and innovations in business models.

Private sector credit grew from 8.6% in 2021 to 12.5% in 2022 largely driven by Manufacturing, Transport and Communication, Trade, Business services and Consumer sectors of the economy.

## Regulatory changes

Central Bank of Kenya (CBK) introduced a Credit Repair Framework covering digital loans. Key highlight of framework were:

- Give a 50% discount on all non-performing digital loans as at 31 October 2022 covering both principal and interest.
- Re-classify the facilities as performing and report them to the Credit Reference Bureau (CRB) as performing up to 31 May 2023.
- Engage the customers to pay the remaining amounts before 31 May 2023
- Have an implementation framework covering communication, complaint management and customer awareness / sensitization.
- Report to CBK on a monthly basis by 10th day of the month effective December 2022.

## Future outlook

The World Bank has downgraded Kenya's 2023 growth outlook to 5% over increased commodity prices including fuel and the effects of drought. The world Bank had earlier projected the country's growth at 5.5% but the prospects have been affected by inflation and constrained income levels. This therefore calls for the Bank to expand and grow the SME and Secured Community sectors to reduce the concentration risk if one of the sectors of the economy experiences slowed growth of economic activities.

According to Data from Kenya Bankers Association, 22 Banks out of 38 Banks have received approvals from CBK to implement risk-based pricing. This move signals an increased appetite for the banks to venture into non-traditional market segments served by regulated and unregulated financial institutions. Growth is projected to decelerate to 5.7% in 2023, driven on the demand side by a decline in domestic and external demand caused by lower income and by an increase in food and fuel import costs and on the supply side by tepid economic activity across sectors due to cost-push factors. The fiscal deficit will narrow to 6.5% of GDP in 2022 and to 5.5% in 2023 with the resumption of the IMF-supported fiscal-consolidation and debt management program. The current account deficit is projected to widen further to 6.1% and 5.2% of GDP over the two years, attributable to higher fuel and food import bills.

In line with campaign promises made during the election period, the current regime set aside funds (Shs.50Bn) to actualize the 'bottom up' analogy to set up a 'Hustler Fund'. 18M Kenyans have so far registered for the fund at the end of last year which is 65% of the adult population signalling the tough times and hardship in accessing credit. Shs 9.5B has been disbursed and Shs 2.6B yet to be repaid, over 800,000 clients are reported to have defaulted. To curb the same interest rate was increased from 8% to 9.5%. The second phase of the fund will be launched by February targeting co-operatives and SMEs and hence the Bank can leverage on the formations to drive uptake of products especially the newly proposed Maisha Bora portfolio, with life touching underrides. The government will be rolling out loans for SMEs from Kes. 100k to make affordable credit to sections of the population that have been left behind for far too long.



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We will continue to leverage on innovation and digital technology to reduce operational cost and improve efficiencies. Mobile application platforms, automated credit scoring, and internet banking capabilities are some of the measures that the Bank will employ to increase collection of deposits and disbursement of loans. Increase in customer touch points through rollout of agencies, mobile banking offering and diversification into different revenue streams will enhance our customer experience.

Our major focus is to accelerate the digital transformation journey through implementation of the Digital strategy, rolling out of the future state enterprise infrastructure programme and embedding digital channels to ensure that we deliver the right financial solutions for our customers.

## Acknowledgement

On behalf of the Group Board of Directors, I would like to thank the management and staff for remaining steadfast and putting extra effort in growing the business to achieve its targets during very challenging period while also protecting and enhancing our brand.

Thanks to these efforts and the full support from our Board of Directors together with our shareholders and stakeholders that the Bank is well positioned to face the future with poise.

Lastly, I thank the Government of Kenya and the regulatory authorities namely: Central Bank of Kenya, Kenya Deposit Insurance Corporation and Kenya Revenue Authority who continue to provide an enabling business environment that fosters growth in the financial industry.

Thank you and God Bless You.

_____

**George A. Maina**
**Chairman of the board.**

# MANAGING DIRECTOR'S Statement

Dear Shareholder,

I take this opportunity to present a review of our business performance for the year ended 31st December 2022.

**Operating Environment**

Kenya's economy continued to rebound from the pandemic in 2022 with real gross domestic product (GDP) increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry. This recovery was dampened by global commodity price shocks, long regional drought, and uncertainty in the run up to the 2022 general elections. According to World Bank, Kenya's growth prospects remain positive with GDP projected to grow by 5.2% on average in 2023–2024 notwithstanding current global and domestic shocks.

Agriculture sector contracted by 1.6% in 2022 compared to a contraction of 0.4% in 2021. This was attributed to unfavorable weather conditions witnessed during the period, as well as increased costs of agricultural inputs such as fertilizer. Despite slowing down markedly in 2022 in volume terms, agriculture remained the dominant sector, accounting for 21.2% of the overall GDP.

Industry-related activities accounted for 17.7%, while service activities accounted for 61.1%. Nominal GDP increased from KShs. 12.0 trillion in 2021 to KShs. 13.4 trillion in 2022. The banking sector remained stable and resilient during the year, with strong liquidity and capital adequacy ratios. Banks continued to implement initiatives in line with Central Bank of Kenya vision of a banking sector that is responsible, disciplined and aligned to customer needs.



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## General Elections

The country held peaceful general elections in August 2022 with the new government's economic recovery agenda aimed at promoting inclusive growth by seeking to increase investments in five sectors — agriculture; micro, small and medium enterprises; housing and settlement; healthcare; and digital superhighway and creative industry — envisaged to have the biggest impact on the economy as well as on household welfare. During the period, the new government commenced withdrawal of the fuel subsidies to ease pressure on government budgeting and planning. The government however continued to provide subsidies on agricultural inputs, especially seeds and fertilizers to support the production side of the economy with a view of increasing agricultural supply to support lower food prices.

## Inflation

Overall inflation in 2022 increased to average 7.6% compared to 6.1% in 2021 driven by increase in food and energy prices, despite the moderation in core inflation. Housing and energy inflation increased from 4.8% in 2021 to 6.0% in 2022 as international oil prices went up, coupled with the depreciation of the shilling. Food inflation increased from 8.6% in 2021 to 13.1% in 2022 partly due to the drought conditions during the year that led to increase in food prices.

Currency exchange rate to the US dollar averaged KShs. 117.8 in 2022 compared to KShs. 109.6 in 2021. The shilling depreciated during the year trading at KShs. 123.37 to the US dollar at close of the year, a depreciation of 9.05%. During the year, the shilling appreciated against Sterling Pound by 2.54% and depreciated against the Euro by 2.48%. Diaspora remittances grew by 8.3% to USD 4.03 billion in 2022, up from USD 3.72 billion in the prior year. The bulk of these remittances came from the United States.

# Overview of Financial Performance

The group recorded a profit before tax of

▲ **Ksh. 15 Mn** as compared to a loss of **Ksh.490Mn** recorded in 2021.

## Loan Book

In 2022, the loan book shrunk by

▼ **Ksh. 2.7 Bn**

to close at **Ksh.15.2Bn** compared to **Ksh.17.9Bn** in 2021.

Disbursements for 2022 declined slightly to **Kshs.9.18Bn** from **Kshs.10.73Bn** in 2021.



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## Deposit Book

The deposit book of the bank closed 2022 at

▼ **Kshs. 16.1 Bn**

from **Kshs. 21.4Bn** in 2021.

## Non-Performing Loans (NPLs)

NPLs increased by

▲ **Kes. 354 Mn**

in 2022 to close at **Kes.4.27Bn** from **Kes 3.91Bn** in 2021

with PAR closing 2022 at **28.10%** from **21.91%** in 2021 mainly because of delayed payments resulting from the effects of COVID-19 pandemic that has seen many businesses slow down, employees lose jobs or experience pay cuts, negatively impacting clients from honoring their financial obligations.

## Cost income ratio (CIR)

Cost income ratio closed at 105.72% in Dec 2022 against a plan of **96.76% YTD.**

The bank has continued to manage lower operating expenses against plan through cost leadership.

## People and Culture Update

We desire to build a culture powered by the desire for common good, attitudes of optimism enthusiasm and exceptional delivery to our customers and stakeholders.

Our culture recognizes the individual passion and contribution of each one of us and how collectively there is nothing we cannot overcome together.

As part of our unifying agenda for the business, we redefined the business purpose to: Transforming Lives & Enabling Financial Goals by keeping our promises. This is a key step in transforming the culture of our business and rallying our people around us being our customers' most trusted partner.

To win the war on talent we prioritize investing in our staff because our people are our business, and their growth and development is paramount. We do this as we continue focusing on building a competitive advantage that ensures we better collaborate to effectively **think together, work together** and **win together.**

## Digital Update

Across the banking industry, visits to physical banks have been on a decline. Smartphone users are steadily growing, and the number of people using banking apps is also progressively increasing.
Project Exodus digital transformation journey was therefore the Bank's response to the dynamic market needs for digital banking services.
While the benefits of mobile banking for consumers are clear (convenience, security, ease of access), mobile banking also presents some distinct advantages that will transform our business model for better and faster service delivery.
Our rich heritage and diverse talent equip us with deep experience and knowledge of our markets. We are confident problem solvers and there is nothing that we cannot overcome together as we live out our rallying call of thinking together, working together, and winning together.

**The digital transformation journey** in the bank has:

- Driven effective and efficient delivery of digital banking services through the Faulu App and USSD via *339#

The core capabilities of the mobile application include:

- Digital loans and credit scoring capabilities
- Customer and account self-onboarding
- Current and savings accounts mobilization with pre-defined target amounts
- Customer Relationship Management capabilities with focus on Customer Experience and Leads management.
- Bancassurance sales through the sales of insurance solutions.

**Faulu Digital Banking has:**

- Driven low-cost deposits through a customer acquisition and deposit mobilization marketing strategy that enhances customer engagement and brand building.
- Digitized operational and credit processes through the capabilities of Document & Records Management System (EDRMS).
- Enabled the Digital Field Agent (DFA) capabilities to optimize productivity and facilitate remote transactions origination.
- Facilitated omni channel experience to customers through the capabilities of an Enterprise Service Bus (ESB) or an ESB equivalent supporting multiple integration capabilities.
- Facilitated the rollout of Internet Banking targeting both retail & corporate clients (with bulk upload capabilities) and Host to Host solutions for our corporate clients.

## Business Strategies Going Forward

The business looks to drive revenue growth of 5% to10% percent through business growth led initiatives such as digital lending, transactional income growth and from Group Integrated financial Services (IFS) initiatives.

We will focus on the following key initiatives as we look to achieve our vision of becoming a Digital and Traders Bank.

- Enhanced customer experience.
- Improved digital capabilities.
- Leverage on the Group Integrated Financial Services (IFS) initiatives synergy.
- Grow the Bancassurance business.
- Foster strategic partnerships.
- Achieve an optimal mix in funding, by driving lower finance costs through long term growth of current and savings accounts and cheap deposits.
- Control spillages and promptly follow up on arrears.
- Enhance controls within the bank.
- Continually manage costs.

## Outlook

Our focus remains to support our customers to plan, grow and protect themselves and what they value through our enriched offering and integrated financial services supported by great customer experience and digital pillars.

We are committed to investing in our businesses and employees to better serve our customers. We also appreciate the support we receive from the government and regulators.

Even though the operating environment presents some risks regionally and globally, our business has shown resilience. We remain optimistic that we will navigate the any challenges that this presents.

## Appreciation

I would like to express my appreciation to all Faulu Bank stakeholders, who are made up of our shareholders, customers, financial and strategic partners, the Board of Directors, Senior Management. Thank you for the support you accorded the business in 2022 for fiercely staying true to the brand and our customers for the stanch support in making sure we contribute to the overall growth of our economy and drive financial inclusion in Kenya and beyond.

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**Apollo N. Njoroge**
**Managing Director**



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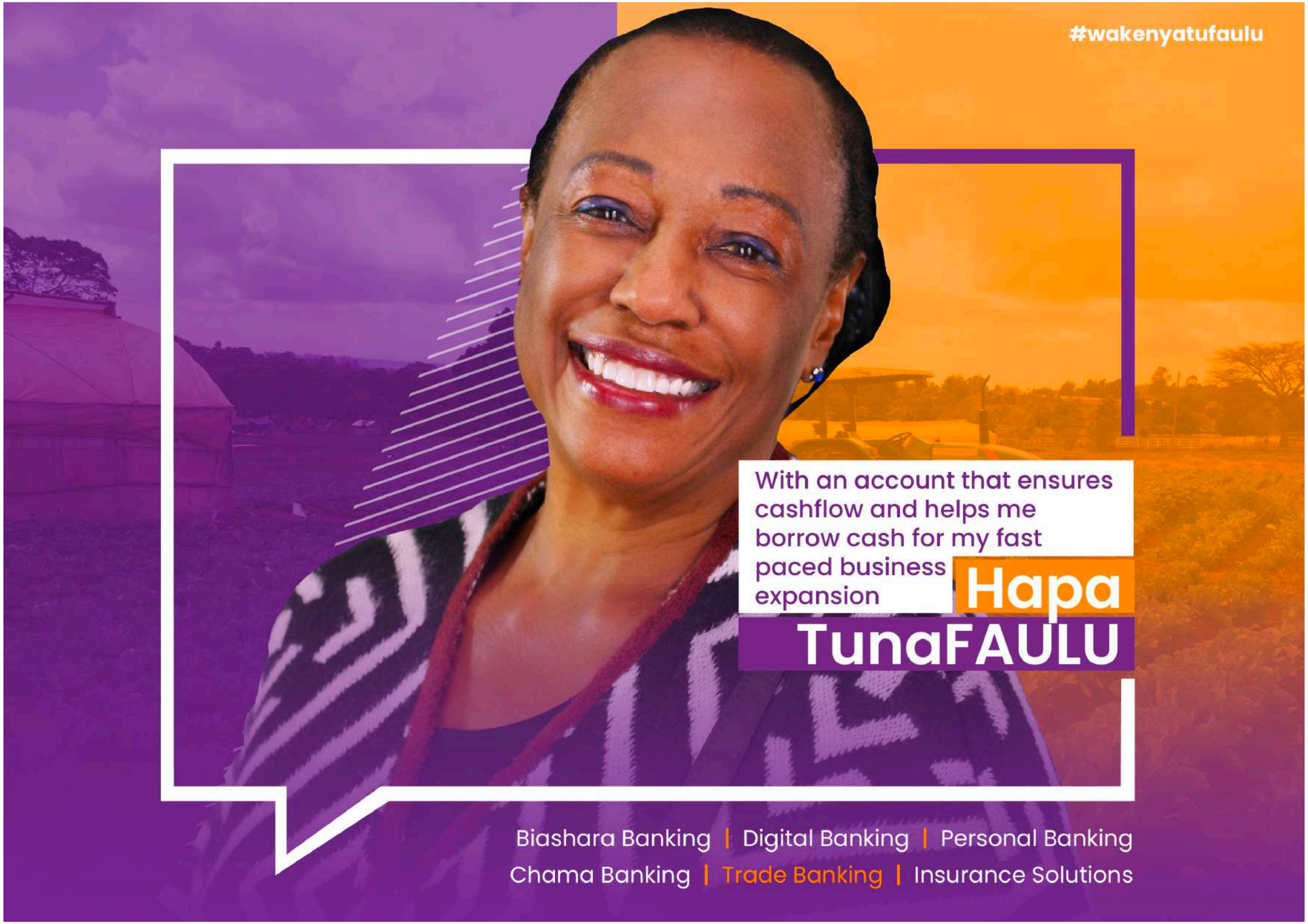
#wakenyatufaulu
With an account that ensures cashflow and helps me borrow cash for my fast paced business expansion
Hapa
TunaFAULU
Biashara Banking | Digital Banking | Personal Banking
Chama Banking | Trade Banking | Insurance Solutions

# OUR SUSTAINABILITY REPORT

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# Our SUSTAINABILITY APPROACH

ESG (Environment, Social and Governance) reporting standards have become an increasingly important part of the investment process.

At Faulu, we continue focusing on key ESG issues which are significant to our organization.

On 29th November 2021, the NSE published the ESG Disclosure Guidance Manual (ESG Manual) in collaboration with the Global Reporting Initiative (GRI).

This serves as a guide for the Kenyan market on how to report and cascade to the wider East African market.

# Our VALUES

- Champion the Customer
- Trust & Accountability
- The Lordship of Jesus Christ
- Respect for each other & Communities we serve
- The power of Diversity and Inclusion
- Always Act with Integrity
- Agile Innovation that makes a Difference



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# 01 ENVIRONMENT

Faulu recognizes that climate change is a systemic risk that has the potential to impact our entire business value chain. We are cognizant that unless we take appropriate action, climate change will impact the sustainability of our business and erode value for customers, shareholders, communities, and the countries we operate in.

Our response to the climate crisis will be guided by our East Africa Climate Action Strategy Task Force and our purpose of championing mutually positive futures every day. Faulu's position on climate change is core to our commitment to 'enable positive futures.'

We aim to achieve our climate action commitments through key areas of action below:

- Providing products and services to our customers that effectively factor in the long-term impacts of climate change and other environmental, social, and governance (ESG)-related risks.
- Reducing the carbon footprint of our operation through energy efficiency programs and increasing our procurement of renewable energy where possible.
- Seeking to invest in a more diverse energy mix.
- Partner with key stakeholders to hasten the development of investment-grade climate policy and adaptation strategies.

# 02 SOCIAL

Faulu and Old Mutual Group undertook a culture audit and rolled out a culture transformation plan for East Africa with the purpose of improving the culture survey score to 45 from 39. The culture transformation blueprint and implementation plan was launched in May 2022 and was embedded in change management key projects. The goal is to pull staff together to embed a culture of **Thinking together, Working Together,** and **Winning Together**.

Faulu and Old Mutual Kenya has partnered with the Kenya Institute of Curriculum Development (KICD) to support integration of financial education in the Kenyan curriculum. This is part of our strategy to mainstream financial education to empower sustainable and responsible financial well-being across Africa in the education systems.
Mainstreaming financial literacy in the curriculum will provide the learner with knowledge, skills, values, and attitudes to manage their finances effectively and enable the learner to make informed financial decisions.

## Our Milestones

Faulu bank and Old Mutual seek to equip teachers with the required financial literacy knowledge, skills, values, and attitudinal competencies to facilitate effective implementation of mainstreamed financial literacy concepts in the curriculum.

- Analysis of financial literacy integration matrices (2021)
- Development of financial literacy guidelines (2021)
- Development of financial literacy teachers' online courses for junior and senior secondary school teachers (2022)
- Partnered with institutions, and like-minded partners to empower young people with financial education & skills development initiatives

01 **16** Universities partnered with AIESEC Kenya ▶ **8** COUNTIES ▶ **5,700** STUDENTS REACHED

02 Provided educational scholarships ▶ **6** Students in the primary school level

03 Partnership with **Simba Corp Foundation, St Kizito Vocational Training** and **Christian Industrial Training Institute**. ▶ **6** COUNTIES ▶ **40** STUDENTS ▶ **28 Students** successfully completed the training.

## Our Vendors

Our vendors are one of our key pillars.

The Faulu, Old Mutual Group's sourcing strategy is anchored on shared values of sustainability, fairness, transparency, and collaboration with our service providers.

During the period ended 2022 the key focus has been on transforming service delivery to our vendors and sustaining cost leadership in our business driven by our sourcing approach.

In 2022 the Faulu procurement spend decreased by **22%** compared to prior year largely driven by driven by cost cutting measures. The procurement strategy saw the turnaround times for vendor payments and contracting process improved significantly. The contract review plan enabled Faulu to review data privacy clauses and incorporate data protection clauses in agreements with third parties necessitated by the enactment of the Data protection Act 2019.

To support our vendors, through the Integrated Financial Service Model (IFS) we also encouraged the uptake of LPO financing to suppliers. Our relationship with our vendors remains strong and solid; performance reviews sessions were held **with 23 critical vendors** in line with our supplier relationship framework and risk management frameworks: these sessions provided a good opportunity to engage with our partners and receive feedback to build on our mutual relationship as well as demonstrates our commitment to our vendors and stakeholders anchored on our shared value principles.

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# 03 GOVERNANCE

The core technology objective for the year 2022 was to digitize core processes to drive operational excellence across our business. Key initiatives that have been executed during the year were aimed at providing a solid technology foundation on which to build a sustainable business. Notable has been the increased automation of our manual controls and processes across our business and which has resulted in organizational efficiencies and cost savings.

Customer experience tools have also been rolled out to enable our business to have an unbiased view of how our customers experience our products or services and to institute effective interventions towards distinguished customer service. Initiatives towards modernization of our technology environment are on course and progressing as planned while exploiting AI and robotics to achieve process efficiencies.

Some of our existing systems have received technical upgrades to improve on their functionality, performance, security, and automation capabilities, these include our, customer relationship system and document management systems.

The maturity of our technology operations and controls as measured by Control Objectives for Information Technology (COBIT), and National Institute for Standards and Technology (NIST) standards continued to improve in line with the targets set by management. The annual audits of controls and their effectiveness were completed successfully, and the set targets of 3 and 3.5 under the COBIT and NIST standards respectively, were met. This indicates that the Group has well documented and managed technology operations processes.

With our digitization initiatives, we have equally enhanced our proactive cyber security risk mitigation strategies. Notably for 2022, our incident response plans have been tested and improved, data loss solution implementation is on course and user security awareness programs are continually rolled out. Additionally, we have put in place measures to comply with the Data Protection Act (DPA) 2019 and activities to enhance existing areas of improvement are ongoing. These initiatives and others as defined in our cyber security strategy which are geared towards providing a safe and sustainable cyber working environment. Our phishing exercises geared towards improving employee detection capabilities improved by 6% in 2022.
Additionally, Fraud Awareness training sessions were held virtually and face to face for all staff. 3 E-Learning modules were also developed and rolled out to all staff covering Fraud & Theft, Antibribery and Corruption and Whistleblowing. The modules were meant to enhance employee's awareness of the Company policies and Code of Conduct.

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# STAFF AND CUSTOMER ENGAGEMENT ACTIVITIES

# TECHNOLOGICAL ADVANCEMENTS

## Faulu Launches New
## CONTACTLESS VISA CARDS

Faulu bank launched new contactless Visa Classic and Platinum cards allowing users to tap and pay on the go.

The contactless cards provide a fast and convenient way to make transactions as they do away with the hustle of looking for hard cash. Besides, with the innovative 3D Security Features embedded it comes with added security, making it safe and secure while still enjoying the benefits of a regular card.

The Faulu Visa Debit card can be activated at any Faulu branch or at any Faulu ATM countrywide. Once active, customers can make ATM withdrawals of up to Ksh.35,000 for Classic cards and up to Ksh.70,000 for Platinum cards. In addition, users can swipe up to Ksh.70,000 for the Classic cards and up to Ksh.200,000 at all the Visa Branded Merchants for Platinum cards.

The 3-D Security feature is hailed for its fraud detection intelligence and acceleration of digital transactions with a fast and secure authentication. It allows information sharing for merchants to send a unique number of transactions that allows the user to authenticate customers more accurately without asking for a static password or slowing down any transactions.

Unlike the regular cards which users swipe or insert to transact, contactless Debit cards only need you to place your card within a few inches of a contactless-enabled payment terminal and the payment information will be transferred. The card has an embedded chip, emitting

FAULU VISA CONTACTLESS CARD



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electromagnetic waves that connects to the terminal. Placing the card within a few inches of the payment terminal will initiate the payment in a second or two.

The new cards' 3D Secure feature allows users to safely shop online on e-commerce platforms like; Jumia, Glovo, Kilimall, Alibaba, Amazon, AliExpress-bay etc. For services, users can make payments to platforms such as Netflix, Amazon Fire Stick, Google, Apple etc. The safety of these online transactions has been enhanced by sending a One Time Pin (OTP) to the customer's registered mobile number before completing the transaction.Card users can access cash at Faulu ATMs, Verve / Pesa-point ATMs and at any Visa enabled ATM machines.

Paul Githinji, Head of Operations and Customer Experience explains the cards features

**"THE BEAUTY OF USING THE FAULU VISA CARD IS THAT THERE IS NO EXTRA CHARGE TO THE SHOPPERS WHO USE IT IN ALL VISA BRANDED OUTLETS WORLDWIDE LIKE SUPERMARKETS, HOTELS, RESTAURANTS, AND PETROL STATIONS AMONG OTHERS,"**

**~ Mr. Njoroge**

Legal team happily pose for a photo

Staff honor the Visa launch occasion by cutting cake



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# Critical Illness Cover **UNVEILED**

Faulu Microfinance Bank introduced a critical illness insurance cover under its bancassurance business aimed at providing additional coverage for first time diagnosis of the listed conditions.

The new solution is aimed at mitigating extreme financial burden that Kenyans incur when medical expenses related to critical illnesses occur and incur more than average medical costs, and traditional health insurance falls short.

Speaking during the launch, **Faulu Bank Managing Director, Apollo Njoroge** said, "Even with excellent medical insurance, just one critical illness can be a tremendous financial burden. This cover allows one to seek treatment at their facility of choice locally or internationally as well as enables users to manage the lifestyle changes that may be required on diagnosis which include the need for a nurse at home or wheelchair".

Already available for subscription, the new cover is set to sell from as low as Kshs. 500,000 to Kshs.10,000,000 for any Kenyan aged 18 -55.

Among the illnesses to be covered include Cancer, Heart Attack, Coma, Open heart surgery, Multiple Sclerosis, Motor Neuro, Stroke, Paraplegia, Dementia, Major organ Transplant, Parkinsonism, Aortic surgery, Renal Kidney failure, Muscle Dystrophy, Accidental brain damage, and Connective tissue disease such as Rheumatoid Arthritis.

Unlike traditional covers, Faulu's critical illness cover can pay for critical medical services that might otherwise be unavailable. Other advantages include its ability to pay for treatments not covered by a traditional policy, and its ability to pay for daily living expenses, enabling the critically ill to focus their time and energy on getting well instead of working to pay their bills.

Staff enjoying photo moments at the Bancassurance event.



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# Celebrating our Customers during **SERVICE WEEK**

Staff at Faulu bank went all out to celebrate Customer Service Week. The week began on a high with cake cutting at Head office. The dress code for the entire week was upheld as evidenced from the versatile dressing styles donned by staff.

Other branches went the extra mile to custom make African attire for all branch staff a move that elevated the spirit of competition and the heart of service to a whole new level.

The core goal for this customer service week was to celebrate service by the front-line staff, to thank customers for their loyalty and support, to remind staff of the importance of great service as we are a customer centric and to recognise all staff for their service especially those whose service stood out.

The week ended on a high through the recognition of trivia winners.

The best dressed staff, branches as well as the top staff in customer experience were also celebrated, they walked away with gifts.

Customer Service week begins with cake cutting

The Head Office team go back in the day

Wait a minute moment

Looking dashing in purple and orange

Staff start the customer service weekon a high



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Bomet branch staff in matching attire

Homabay Branch looking good in Kitenge

Staff looking good in her sportswear

When you get your sportswear brief right

Bungoma Branch go all out in matchy matchy African wear

Kitui branch honour the Monday dress code



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Solomon of Operations receives an award for winning a Customer service trivia

Purity of Credit receives her award for best dressed during the Customer service week

Mombasa Moi Avenue Branch looking good in sports wear

Thika team looking stunning

Moi Avenue branch bag the 2nd best dressed branch award

Kimathi Branch nail the oldskool dress code and win the best dressed branch award

Changamwe staff looking good

Kiserian branch team pose for a photo



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# Faulu Engaged Traders
## COUNTRYWIDE

Faulu Microfinance Bank held countrywide Business Community Engagements aimed at supporting SMEs to build resilience in their businesses through solid financial advisory and access to financing from the bank.

This came on the backdrop of the bank reviewing its Trade Finance offering to offer competitive pricing, flexible collateral and to improve efficiency through a quick turnaround time.

Despite their major contribution to economic development, SMEs face a myriad of challenges such as access to finance, access to markets, access to information, access to technology, lack of management skills and unsupportive policies. Faulu seeks to bridge this gap through financial education for customers tailormade to answer to their key needs.

The Business Community Engagement forums were executed in ten counties until year end.

A customer giving feedback

Customers and staff paying attention to the presentations

Customers carefully listening during the Customer Forums

Customers following proceedings keenly

Customers paying attention

Customers share a light moment

One of the customers speaking



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Faulu staff ready to receive guests

Manager Treasury - Irene Nzuna speaks to customers about Forex and Long term deposit

SME Manager enlightens customers about the benefits of the Business accounts and Business Loan

Staff looking dashing and ready for an evening to discuss finances

A customer asks for clarification at a Faulu event



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# OUR CORPORATE SOCIAL RESPONSIBILITY

SUSTAINABLE DEVELOPMENT GOALS

**OLD MUTUAL FAULU FOUNDATION PILLARS ARE PEGGED ON THREE THEMES IN LINE WITH THE SUSTAINABLE DEVELOPMENT GOALS.**

1 NO POVERTY

## Financial Wellbeing

**Initiatives to improve financial behavior, stimulate increased savings, and lead to economic transformation and inclusion.**

The Old Mutual Faulu Foundations seeks to **improve the financial wellbeing of Kenyans** through mainstreaming financial education and by supporting the large-scale financial education campaigns.

**Achievements**

- 5,700 students trained in 16 universities through student led forums.
- Development of financial literacy teachers' online course as part of the Old Mutual Faulu Learn **Think Do** initiative.
- 6,172,248 online reach through Old Mutual Faulu social platforms and Shujaaz Inc partnerships in Quarter one 2022
- Corporate financial education forums held by Business Units to customers.

4 QUALITY EDUCATION

## Education and Skills Development

**Initiatives that empower young people with the skills relevant to the job market, thus enabling them to become economically active.**

The Foundations objective is to empower young people with the skills relevant to the job market and improve access to skilled workforce that is future-fit for the Old Mutual Faulu East Africa market.

**Achievements**

- 40 students trained in automotive skills in 2 TVETS a partnership with Simba Corp, Graduation on November 23rd, 2023, CITC Mombasa.

13 CLIMATE ACTION

## Environment

**Funding of sustainable management of resources, and the protection and or restoration of the natural environment through changes in public policy and individual behavior and conservation initiatives**

The foundation aims to support the Old Mutual climate action targets through afforestation, drought mitigation measures, supporting renewable energy initiatives and building the capacity of communities to mitigate or prevent the adverse effects of climate change.

**Achievements**

- Annual monitoring of tree planting site at Aberdare National Park and Kereita Forest.
- Developing Climate Action strategy as part of the Climate Taskforce work



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# Old Mutual Faulu Foundation achievements
## AT A GLANCE

### FINANCIAL WELL BEING & SKILLS

**Old Mutual Learn Think Do – Developed Financial literacy orientation course for secondary school teachers to enable quality delivery of concepts to learners.**

Provision of Assistive Devices for Special Schools in
**5 counties**

Scholarships for students in :
**7 Schools & 2 TVETs**
Skillis programme
**40 youths**

Provision of Financial Education for over

**10,000** participants

**5700** Students
**16** university partners

**Social media reach 8,000,000**

Financial education pillar: Objective: To improve the financial wellbeing of Kenyans through mainstreaming financial education and large-scale financial education campaigns.

### ENVIRONMENT

**Accelerating achievement of National tree cover through afforestation and reforestation in Kenya's water towers, in line with the national strategy.**

Counties Covered in tree planting initiatives:

**Nyeri, Murang'a**

**Kiambu, Kisii**

**Kajiado, Homa Bay**

Total number of trees planted

**80,000**

### HEALTHCARE

**Improve access to quality health through funding medical equipment and infrastructure.**

Mama Lucy Kibaki Hospital Queue Management System Installation
**365,000**
patients annually

Kenyatta National Hospital A&E Wing Renovation to serve
**180,000**
Patients Annually

Uasin Gishu District Hospital Maternity & Lab Renovation
**108,000**
patients annually

Covid - 19 Pandemic humanitarian fund
**Kshs 6,000,000**



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# CSR PICTORIAL

A group photo of Old Mutual Leadership and KICD Leaders during the launch of the Finacial Literacy Guidelines for Schools in Kenya

A visit to KCA University to promote the importance of embedding Financial Literacy in their education program

Prof Ong'ondo and Tabby Tsengiwe launch the Finacial Literacy Guidelines at KICD



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A group photo of Old Mutual Leadership and KICD Leaders during the launch of the Financial Literacy Guidelines for Schools in Kenya

Laikipia University Financial Education forum



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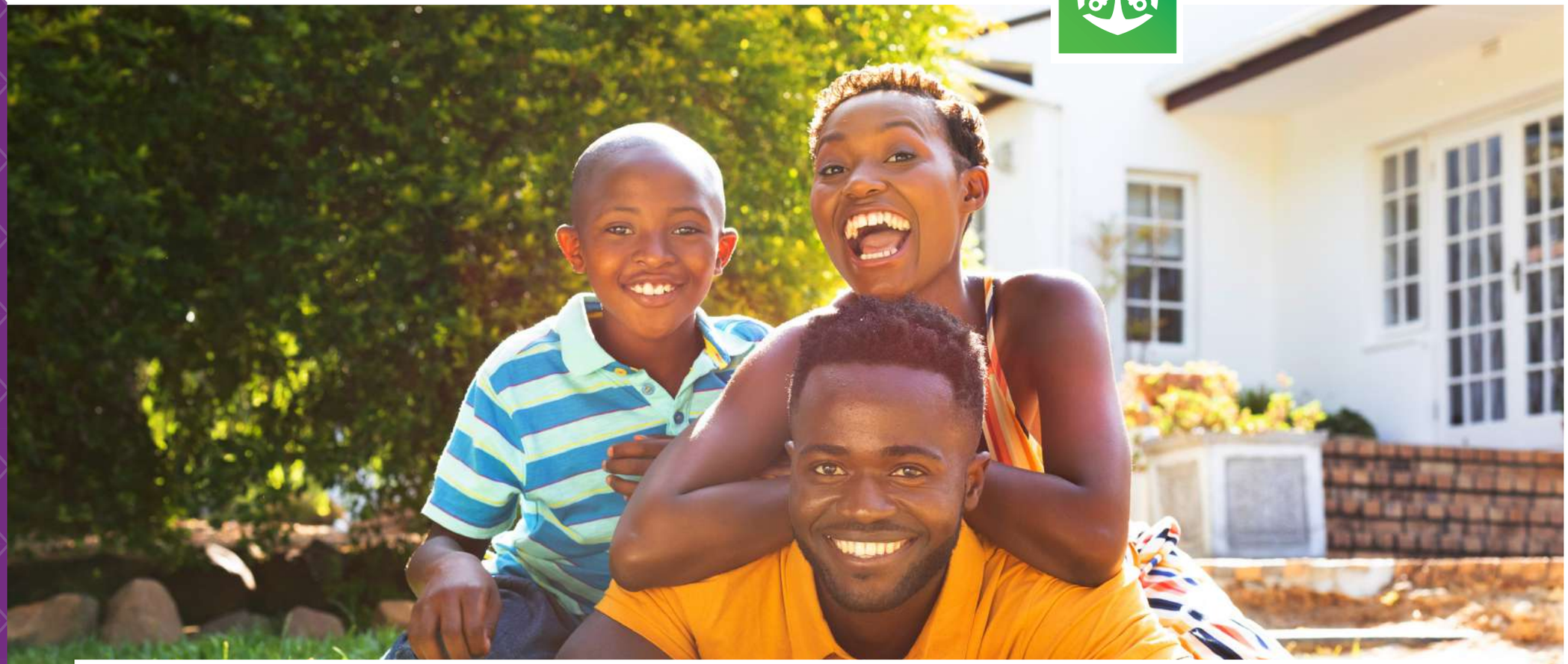
This product is underwritten by OLD Mutual



# GET A CRITICAL ILLNESS COVER

From Kes. 0.5M up to Kes. 10 M and pay your premiums via a check-off plan!

**Your financial bridge to give you a fighting chance on first diagnosis of a critical illness.**

SMS the word 'CRITICAL' to 22506 or call us via 0711 074 074

#LoveInsurance

Distributed by Faulu BANCASSURANCE INTERMEDIARY LTD

A subsidiary of Faulu Microfinance Bank

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Experts from Faulu and Old Mutual speak to staff about the importance of starting their savings and investment journeys early

Financial Literacy Guidelines Launched

Presentations ongoing during the financial literacy programs

Promoting the importance of embedding Financial Literacy in their education program at KCA University



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Financial Education student forum held in Mombasa

# OUR PARTNERSHIPS

# Partnership with USAID-funded Feed the Future **KENYA CROPS AND DAIRY MARKET SYSTEMS ACTIVITY (KCDMS)**

FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

Faulu inked a partnership deal with USAID-funded Feed the Future Kenya Crops and Dairy Market Systems Activity (KCDMS) implemented by RTI International to enhance access to finance for farmers across the country.

The collaboration which targeted 12 Counties namely: Migori, Homabay, Kisumu, Kisii, Siaya, Bungoma, Kakamega, Vihiga, Busia, Kitui, Makueni and Taita Taveta regions with an aim to support the development of sustainable agriculture as an economic engine, an environmentally sound enterprise, and an essential contributor to human health and welfare.

**"This partnership will not only allow us to grow our agriculture financing segment but also enable us to train at least 10,000 farmers on how to take loans, grow their revenues and how to flag off challenges in their farming journey". "At least Ksh.100 million has been set aside by the bank for agriculture financing and we are ready to extend more financing towards agriculture on a need basis," said Njoroge, Faulu Bank Managing Director.**

Besides the training, the USAID- KCDMS project Ksh.12.9 million grant will support Faulu to recruit and train staff in the branches that support agriculture financing as well as credit staff involved in agriculture loan analysis and disbursement.

The partnership further seeks to help all individuals, and not only full-time farmers make healthier eating choices but on a large-scale inform policies and programs that affect millions of people.

According to its 2022 strategic pillars, the bank remains keen on strengthening its play in the counties, where the key economic activities are taking place, by providing the much-needed financial support to improve the capacity of small enterprises to take advantage of unfolding trade opportunities at the devolved level.

Additionally, this partnership looks to integrate the youth and women into the agricultural market system. Young Kenyans represent a large and growing share of the country's workforce, and with improving educational attainment and advanced digital literacy, they are poised to drive agricultural innovation and transformation. Some of the expected outcomes of this partnership are: increased investment and employment by youth and women within high-return agricultural value chains, improved understanding among young people and women about profitable business opportunities across entire value chains, reducing stigma and misconceptions about entering the agricultural sector and reduced barriers for youth and women in accessing finance, stimulating investment in production and off-farm enterprises.

Lastly, the partnership hopes to enable customers to achieve lifetime financial goals and experience personalized services for all at the branch level.

USAID
FROM THE AMERICAN PEOPLE



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#wakenyatufaulu
With an account that helps us save towards our future goals and insures against unforseen uncertainities
Sisi
TunaFAULU
Faulu BANCASSURANCE INTERMEDIARY LTD
A subsidiary of Faulu Microfinance Bank
Biashara Banking | Digital Banking | Personal Banking
Chama Banking | Trade Banking | Insurance Solutions

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For more information on our products and services, visit www.faulukenya.com or call 0711074074

# REPORT OF
# The Directors

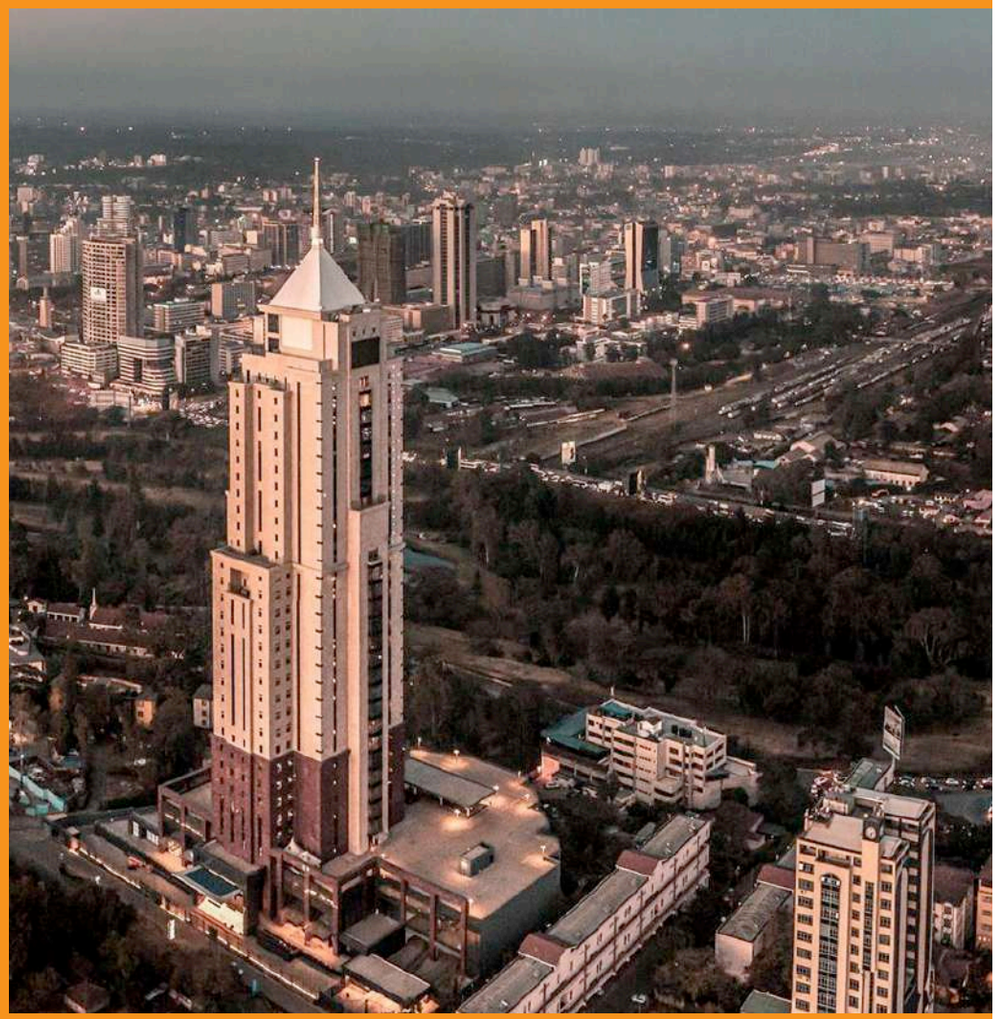
**The Directors present their report together with the audited financial statements of Faulu Microfinance Bank Limited (the " Bank" or "Faulu") and its subsidiary (together, the "Group") for the year ended 31 December 2022, which disclose its situation in accordance with the requirements of the Kenyan Companies Act, 2015 and Microfinance Act, 2006.**

## PRINCIPAL ACTIVITIES

The principal activity of the Bank is the transformation of lives through provision of loans to micro and small entrepreneurs, deposit taking from the public and bancassurance. The principal activity of the subsidiary is provision of insurance agency services.

## OPERATING RESULTS OF THE GROUP AND THE BANK FOR THE YEAR

| | Group | | Bank | |
|---|---|---|---|---|
| | 2022 Shs '000 | 2021 Shs '000 | 2022 Shs '000 | 2021 Shs '000 |
| Profit/(Loss) before tax | 15,085 | (489,796) | (13,903) | (521,656) |
| Income tax Expense | (316,469) | 105,260 | (306,954) | 114,988 |
| **Profit/(Loss) for the year** | **(301,384)** | **(384,536)** | **(320,857)** | **(406,668)** |





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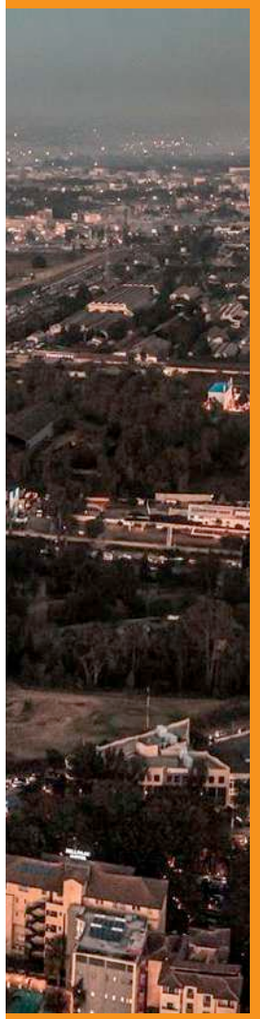

# Business **REVIEW**

## Operating environment

Kenya's economy continued to rebound from the pandemic in 2022 with real gross domestic product (GDP) increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry. This recovery was dampened by global commodity price shocks, long regional drought, and uncertainty in the run up to the 2022 general elections.

According to World Bank, Kenya's growth prospects remain positive with GDP projected to grow by 5.2% on average in 2023–2024 notwithstanding current global and domestic shocks. The baseline assumes robust growth of credit to the private sector, continued low COVID-19 infection rates, a near term recovery in agricultural production, and high commodity prices favourable to Kenyan exports. These developments are in turn expected to catalyse private investment to support economic growth over the medium term.

The banking sector remained stable and resilient during the year, with strong liquidity and capital adequacy ratios. Banks continued to implement initiatives in line with Central Bank of Kenya vision of a banking sector that is responsible, disciplined and aligned to customer needs.

## Agency Banking

According to Central Bank of Kenya, 21 commercial banks and 3 microfinance banks had contracted 78,824 and 908 agents respectively since the inception of agency banking in 2010. The number of transactions via agents cumulatively increased from 975.5 million in 2021 to 1.1 billion in 2022. Similarly, the value of transactions increased cumulatively from Shs 7.3 trillion in June to Shs 9.0 trillion in 2022.

## Microfinance Industry

Total assets in the microfinance sector decreased to Shs 72.8 billion in 2022 from Shs 76.0 billion in June. The decrease is mainly due to decrease in loans and advances from Shs 49.4 billion in 2021 to Shs 45.2 billion in 2022. Asset Quality also deteriorated with gross NPLs increasing to Shs 14.7 billion in 2022 from Shs 12.3 billion in 2021. Consequently, the gross NPLs to gross loans ratio increased to 32.5 percent in 2022 from 25.0 percent in 2021. Customer deposits decreased by 5.5 percent to Shs 48 billion from Shs 50.8 billion.

## Regulation of Digital Credit Providers

The Central Bank of Kenya (Amendment) Act, 2021 which granted CBK the power to license and oversight the previously unregulated digital credit providers (DCPs) was gazetted and operationalised on March 18, 2022. Under the Regulations, previously unregulated DCPs had up to September 17, 2022, to apply to CBK for licences or cease operations. By year end, 10 digital lenders had been licenced.

## Interest rates

Average lending rate remained relatively stable at about 12.1 percent in the FY2021/22 compared with 12.0 percent in the previous financial year, reflecting an accommodative monetary policy stance. Similarly, the average commercial banks deposit rate was relatively stable at 6.47 percent compared to 6.41 percent in the previous financial year.



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## Mergers and acquisitions

Due to changes in the operating environment, several licensed institutions, commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices, among others. During the year Wakanda Network Limited (of United Kingdom) acquired 85 percent shareholding of Choice Microfinance Bank Limited, Branch International Limited acquired 84.89 percent shareholding of Century Microfinance Bank Limited (Century MFB).

## Market Description and Branch Networks

The Bank has 50 banking branches, 2 marketing offices and 568 appointed agents. These hubs and branches currently serve close to 283,388 customers. The bulk of the Bank's customers are civil servants while others are engaged in commercial activity of a retail nature, with a reasonable number engaged in service businesses, agriculture, and manufacturing. The Bank closed four banking branches and moved one branch to a new location.



## Products and Services

Faulu has a wide array of innovative products and services that meet our customer needs. The products and services range from savings accounts, term accounts, loans as well as bancassurance products.

## Risk Management

The Group has put in place a robust risk management and corporate governance framework that enables it to identify, assess and prioritize its risks, as well as detail the mitigation and response plans for each category of risk. The banks' risk-management functions, which act as a second line of defence between frontline employees who work directly with customers and the internal risk teams, adopted new practices to monitor existing risks and guard against new ones, including cyber risks triggered by the pandemic. The Group will continue to monitor all risks affecting its business to ensure appropriate actions are taken to reduce potential impact.

Refer to note 3 of the financial statements for a description of the Group's financial risks and how they are managed.

## Conclusion

We are optimistic that the operating environment will improve in 2023 as we continue to deliver impressive improvements in our profit growth anchored by strategic approach, revamped products, bancassurance solutions and launch of digital platform. This improvement is supported by robust foundation over the years, and it is upon this solid foundation that we launch into 2023 with great excitement.

## DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year 2022 (2021: Nil).

## DIRECTORS

The Directors who held office during the year and up to the date of approval of these financial statements are disclosed on page 2.

## AUDITOR

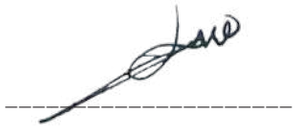
The auditor, Ernst and Young (EY) LLP, having expressed their willingness were appointed as the Banks auditors in accordance with the Kenyan Companies Act, 2015 and subject to approval by the Central Bank of Kenya under section 29(1) of the Kenyan Microfinance Act (2006). The Directors monitor the effectiveness, objectively and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders,

## DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

BY ORDER OF THE BOARD



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**James W. Murage**
**Company Secretary**

Nairobi

March 2023



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#wakenyatufaulu
With a relationship manager who is always on call and preapproved loan limits, hatunastress ya cash flow
Huku
TunaFAULU
Biashara Banking | Digital Banking | Personal Banking
Chama Banking | Trade Banking | Insurance Solutions

# » CORPORATE GOVERNANCE STATEMENT

The Bank received its Deposit Taking License from the Central Bank of Kenya on 21 May 2009, becoming the first institution in Kenya to be licensed to receive deposits from the public under the Micro Finance Act (2006). The Board of Directors of Faulu is responsible for the formulations, implementation and monitoring of Faulu's strategic plan with the aim of achieving sustainable profitable growth.

The Board of Directors of the Bank is also responsible for ensuring that the Bank complies with the highest standards of corporate governance and universally accepted business ethics. The Board has developed, adopted, and benchmarked a framework of internationally recognized principles of good corporate governance, which it endeavours to adhere to in the pursuit and maintenance of the highest possible standards.

The Board Charter together with the Articles of Association guide the Board of Directors in the discharge of their duties as they set out the expectation of the Board, Management, and their expected contribution to the Bank. Every Board Committee has its terms of reference that sets out the scope and mandate of the Committee and its responsibility to the Board. The Charter is reviewed on an annual basis to ensure that the principles set out therein are relevant and comply with applicable laws and regulations.

The Board of Faulu further upholds the values of uncompromised integrity, while conforming to the highest standards of ethics, honesty, trust, fairness, quality, and pursuit for excellence.

### Board size, composition and appointments

The Board comprises a balanced mix of proficient individuals. This takes into account a balance of executive, non-executive and independent Directors, various skills and competencies, differing experiences and team roles, balance gender and age factors. This ensures ability to add value while ensuring that there is an appropriate balance of power on the Board such that no individuals/interests have unfettered power or can dominate the Board decision making process.

As at 31 December 2022, the Board is comprised of ten (10) Directors majority of whom are non-executive Directors with one (1) executive director.

There is a formal and transparent process for all appointments to the Board. On an annual basis, the Board reviews and assesses the composition and performance of the Board to ensure that:

a) the mix of membership is appropriate and compatible with the requirements of both the Board and the Bank; and
b) Non-executive Directors commit adequate time and contribute effectively to the Board.

The Board is directly involved in the sourcing and appointment of new Directors and appointments are based on merit and against objective criteria.

### Board responsibilities

The Board is responsible for setting the direction of the Bank, corporate values and standards, and ensures that its obligations to shareholders are understood and met. Their responsibilities include the following:

- Approving and monitoring the implementation of the strategic plan and annual business plans including regular review of the Bank's performance against the set objectives, including company vision, mission, and values.
- Review of the financial reports and approve the requisite public announcements and ensuring that there are adequate controls and procedures in place to maintain the integrity of accounting and financial records and statements.
- Reviewing and monitoring that the Bank maintains an effective system of internal controls, processes and the at the Bank conducts its operations in accordance with applicable laws and regulations.
- Approving key executive appointments and remuneration, monitoring, and reviewing executive succession planning and diversity. Additionally, the Board reviews and monitors the performance of the Managing Director and senior management.
- When required or necessary, seek independent professional advice.
- The Board has delegated the day-to-day operations of the Bank to the Management team which is headed by the Managing Director.



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## Chairman and Managing Director

The roles and responsibilities of the Chairman of the Board and the Managing Director are separate each having their distinct duties and responsibilities.

**The Chairman is responsible for:**

- The leadership of the Board and ensuring that the Board functions are effectively carried out
- Setting the Boards' agenda while striking a balance between strategy and performance.
- Committees by ensuring that the Committees meet regularly and comprehensively report their activities to the Board.
- Ensuring that sufficient time is allowed for discussions on complex, contentious and critical issues and that all directors engage and contribute to these discussions while ensuring that appropriate time and information are provided to directors to take sound decisions on such matters.
- Encouraging active engagement and appropriate challenges by the Board on the Group's risk and control environment.
- Facilitating effective communication between the Board and the Management team inside and outside of the Board meeting framework.

**The Managing Director is responsible for:**

- Driving the implementation of the strategy and business as approved by the Board and regularly reporting on the progress on execution.
- Leading and motivating the Executive Leadership team by ensuring they set annual performance objectives that stretch their capabilities and monitoring the delivery of the same.
- Maintaining and ensuring the effectiveness of the system of governance adopted across the Group.
- Managing all matters affecting the operations and performance of the Group within the authority delegated to him by the Board.
- Providing timely and accurate information about the Bank and key / material developments to the Board.
- Communicating with internal and external stakeholders on matters affecting the Bank.
- Ensuring that the Bank operates in compliance with all relevant laws and regulations.

## Board and Committee Responsibilities

The committees of the Board consist of a balanced mix of non-executive and executive Directors. The Board has constituted the following 5 Board committees:

1. The Audit Committee;
2. The Risk and Compliance Committee;
3. The Credit Committee;
4. The Governance Remuneration and Nominations Committee; and
5. The Innovations and Technology Committee.

Other ad hoc Board committees are set up as and when the need arises. The Board committees regularly report to the Board on their activities and decisions.

## Board and Board Committee Meetings

The Board and its committees meet at least once every quarter, but the business may require the convening of special Board meetings from time to time. All Board meetings are scheduled in advance of the respective year through an annual rolling calendar of Board meetings which facilitates planning and availability of the members. Board Committee meetings are scheduled in advance of the Board meeting so that all technical matters are appropriately addressed at the committee level and reported to the Board for ratification or approval. For the year ended 31st December 2022, the Board met four (5) times.

The Board attendance during the year was as follows:

| Board of Directors | Role | Attendance at qualifying meetings | Average Attendance |
|---|---|---|---|
| George A. Maina | Chairman Non-Executive Director | 5/5 | 100% |
| Sophia Mukoba | Non- Executive Director | 5/5 | 100% |
| Njeri Ndehi | Non- Executive Director | 5/5 | 100% |
| Peter J. Mogan | Non- Executive Director | 4/5 | 80% |
| Samuel Matsekete | Non- Executive Director | 5/5 | 100% |
| Michael Monari | Non- Executive Director | 5/5 | 100% |
| Arthur Oginga | Non- Executive Director | 5/5 | 100% |
| Kenneth Kariuki | Non- Executive Director | 5/5 | 100% |
| Caroline Gathii | Non- Executive Director | 5/5 | 100% |
| Apollo N. Njoroge | Executive Director | 5/5 | 100% |



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## The Audit Committee

The Audit Committee is constituted to assist in raising the standards of corporate governance and internal controls in the following areas:

a) Ensuring that financial and operational information is prepared in an accurate and timely manner
b) Improving the quality of financial record keeping and reporting
c) Strengthening the effectiveness of internal and external audit functions
d) Enhancing public confidence in the credibility and stability of the institution.
e) Recommending and reviewing adherences to accounting policies and internal controls;
f) Acting as the Board's central coordination point for investigation of complaints relating to financial statements, compliance, and internal controls.

The Committee held held four (4) meetings in the year and attendance during the year was as follows:

| Membership during the year | Average Attendance |
|---|---|
| Sophia Mukoba | 100% |
| Peter Mogan | 100% |
| Caroline Gathii | 100% |

## The Risk Management Committee

The Board delegates the responsibility to ensure quality, integrity, and reliability of the Bank's risk management to the Board Risk Management Committee. The Committee met four (4) times in the year 2022 and its responsibilities were as follows:

a) Establishing the Bank's risk control system and ensuring the risk policies, including risk tolerances, consistent with the Risk Management Program, are effectively identified, measured, monitored, and controlled.
b) Set out the nature, role, responsibility, and authority of the risk management function with the Bank and outline the risk management work.
c) Reviewing the adequacy of the Bank's capital and allocations to various business units considering the types and sizes of risks at those business units.
d) Establishing an enterprise-wide risk management framework for all functions in the Bank and at all levels; and
e) Monitor external developments relating to the practice of corporate accountability and reporting of specifically associated risk including emerging and prospective impact.

The Committee meeting attendances during the year were as follows:

| Membership during the year | Average Attendance |
|---|---|
| George A Maina | 100% |
| Peter Mogan | 100% |
| Sophia Mukoba | 100% |
| Caroline Gathii | 100% |
| Apollo Njoroge | 100% |

## The Credit Committee

The Board Committee is established by and among the Board of Directors to assist in discharging their corporate governance duties which include:

a) Review and oversee the overall lending policies, including monitoring and risk management tools.
b) Review loan applications based on established discretionary approved limits.
c) Review lending practices and quality of loan portfolio.
d) Ensure that there are effective procedures and adequate resources to identify and mitigate credit risk.
e) Monitor and evaluate all issues that may materially impact on the present and future quality of the loan portfolio and credit risk management.
f) Delegate and review lending limits to the sanctioning arms of the institution.
g) Ensure adequate provisions for loans and advances, bad and doubtful debts and write-off policy
h) Conduct loan reviews independent of any person or committee responsible for sanctioning credit.
i) Ensure that the credit policy and risk lending limits are reviewed at least once on an annual basis and when the environment so dictates; and
j) Set limits on lending exposure in line with the institution's risk management programs and market conditions.

The Committee held four (4) meetings during the year and the attendance during the year was as follows:

| Membership during the year | Average Attendance |
|---|---|
| Michael Monari | 100% |
| Apollo N. Njoroge | 100% |
| Kenneth Kariuki | 100% |
| Samuel Matsekete | 100% |



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## The Governance, Remuneration and Nominations Committee

The Governance Remuneration and Nominations committee is responsible for all aspects of appointment of the Bank's directors, monitoring the size and composition of Board including recommending appointments, succession planning for Non-Executive Directors, reviewing board and Committee evaluation and providing oversight to the Board's professional development program.

The Committee also reviews and assesses the Bank's remuneration policies and practices that apply to employees as well as to Non-Executive Directors' benefits. The key responsibilities of the Committee is as follows:

- Provide oversight in the development and monitoring of governance-related policies including the review of the Board and committee terms of reference.
- Identify, nominate and recommend for approval of the Board, candidates to fill board vacancies as and when they arise to ensure that the Board is fit for purpose.
- Review the Board succession plan to ensure the Directors' pipeline is robust and that processes and plans are in place with regard to both board and senior management appointments.
- Recommend the continuation (or not) in service of any Director who has reached the institutions retirement age limit.
- Guiding and directing the implementation of remuneration strategies, policies, group-wide remuneration principles, related proposals and structure, whilst taking into consideration local conditions; and
- Monitoring and controlling the remuneration and benefit structures and their costs.

| Membership during the year | Average Attendance |
|---|---|
| George A. Maina | 100% |
| Sophia Mukoba | 100% |
| Arthur Oginga | 100% |
| Apollo N. Njoroge | 100% |

## The Innovation and Technology Committee

The Innovation and Technology Committee Board Committee was established by the Board of the Bank as part of its mandate to drive transformation, governance, and business growth for the Bank. The committees mandate includes the following:

1 Develop and sustain the information technology (IT) plan for the Bank and ensure approval by the Board. This includes:
   a. Responsibility of managing strategic IT related projects like the core banking upgrade/replacement; and
   b. Coordinating components of the plans from all units across the Bank.

2 Develop and recommend the Bank's IT policy.
3 Review and recommend IT project development plans in the context of Information technology strategic and transformation agenda.
4 Create ad hoc committees to address strategic Information and Communication Technology (ICT) issues, when required;
5 Review, coordinate and arbitrate major ICT activities across the Bank
6 Provide an update to the Board, Regulators and the relevant shareholders on the progress made in the identified IT strategic projects and the transformation agenda.

| Innovations and Technology Committee | Average Attendance |
|---|---|
| George A. Maina | 100% |
| Njeri Ndehi | 100% |
| Kenneth Kariuki | 100% |
| Michael Monari | 100% |
| Apollo Njoroge | 100% |



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## Management Committees

### i) The Assets and Liabilities Management Committee (ALCO)

This committee meets every month or more frequently when business necessitates. ALCO, a risk management committee, is tasked with the responsibility to drive the strategy of the Bank in terms of mix of assets and liabilities and its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

ALCO is also tasked to ensure that all foreseeable funding commitments and deposit withdrawals can be met as and when they fall due, and the Bank does not encounter difficulties in meeting its obligations or financial liabilities as they fall due. This includes management of operational risks, interest rate, market and exchange rate risks, policy and procedure compliance, implement the funds management policy and ensuring compliance with statutory requirements governing limits pertaining to liquidity, various statutory ratios.

### ii) The Management Credit Risk Committee

This committee meets regularly to approve new credit applications and renewals within the delegated limits set by the Board. The committee also regularly makes recommendations to the Board Credit Committee on the revision of limits. All approvals are independent of the originating business unit.

## Single Borrower Limit

The institution did not extend loans exceeding 5% of its core capital to any single end-user borrower. The Board of Directors ensures that loans or credit facilities equivalent to the maximum limit are extended only to those borrowers who have the capacity or have an established track record of satisfactory repayment. The Bank has well-defined credit policies and procedures covering the maximum lending limits and approval levels, rate to be charged, repayment period, loan tracking and collateral. The institution granted loans to 1 single end users that exceeded 2% of its core capital. The aggregate amount of loans was not more than 30% of the Bank's total loan portfolio.

## KYC Requirements

The Board of Directors ensures that Management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records for a minimum of seven years regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

George A. Maina
**Chairman**

Apollo N. Njoroge
**Managing Director**

30th March 2023



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# STATEMENT OF DIRECTORS' RESPONSIBILITIES

**The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and the Bank as at the end of the financial year and of its profit or loss for that year.**

It also requires the Directors to ensure that the Group and the Bank maintain proper accounting records that are sufficient to show and explain the transactions of the Bank and disclose, with reasonable accuracy, the financial position of the Group and the Bank. The Directors are also responsible for safeguarding the assets of the Group and the Bank, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing, and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.
(ii) selecting suitable accounting policies and then applying them consistently; and
(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having assessed the Group's and the Bank's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group and Bank's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 30th March 2023 and signed on its behalf by:

_____

George A. Maina
**Chairman**

_____

Apollo N. Njoroge
**Managing Director**



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# REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## Opinion

We have audited the accompanying consolidated and separate financial statements of Faulu Microfinance Bank Kenya Limited (the "Bank") and its subsidiary (together with, the "Group"), set out on pages 20 - 85, which comprise the consolidated and separate statements of financial position as of 31 December 2022, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial positions of the Group and the Company as at 31 December 2022 and the consolidated and separate financial performance and the consolidated and separate cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.



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# REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Expected Credit losses (ECL)** | |
| **See notes 1(v) and 11 of the consolidated and separate financial statements** | |
| As disclosed in Note 3 (a) , as at 31 December 2022, the Group had an allowance for expected credit losses on financial assets at amortised cost of Kshs 3.1 billion (2021: Kshs 3.3 billion). The expected credit losses are based on a forward-looking approach that recognises impairment loss allowances in accordance with IFRS 9 Financial Instruments. The estimation of expected credit losses requires the Bank to make significant judgements in the consideration of the following variables:<br><br>• Allocation of loan facilities due from customers to stages 1, 2 and 3 in accordance with IFRS 9 based on:<br>  • Credit exposures for which there has been a significant increase in credit risk since initial recognition, and for which a loss allowance is recognised over the remaining life of the exposure (life-time ECL); and<br>  • Credit exposures for which there has been no significant increase in credit risk, and for which a loss allowance is recognised for default events that are possible within the next 12-months (12-month ECL).<br>• Assessment of Probability of Default (PD) and Loss Given Default (LGD).<br>• Application of historical and forward-looking information, including macro-economic factors in the assessment of the PDs.<br>• Assessing and forecasting expected future cash flows from impaired (stage 3) loans and advances to customers and assessing the financial condition of the counterparty, estimated recoverable amounts and collateral realisation.<br>• Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models.<br><br>We identified the audit of the expected credit losses as a key audit matter considering the significant size of the Bank's loan book and the high degree of estimation uncertainty due to significant judgements and assumptions applied in calculating ECL. The complexity of these estimates requires management to disclose the key judgments and the key inputs into the ECL computations. These disclosures include those in note 1(v) to the financial statements and the accounting policies in note 11. | Our audit procedures included, but were not limited to:<br><br>• Reviewing the accounting policies for compliance with IFRS 9 requirements.<br><br>• Reviewing the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9 requirements.<br><br>• Reviewing the allocation of loans and advances to customers to stages 1, 2 and 3 for compliance with IFRS 9, basing on the performance of the loans and the available information.<br><br>• Evaluating the assumptions made to factor expected future cash flows into the ECL computations, taking into account market conditions, and the post-reporting date performance of the loan facilities.<br><br>• Evaluated the reliability of data sources, including collateral valuation, used in the ECL calculations. This included auditing a sample of loan files to check, where appropriate, if the inputs agreed to the supporting documentation.<br><br>• We evaluated the adequacy of the Bank's disclosures in respect of the judgement and assumptions used in the valuation are in line with IFRS 9. |



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# REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

**Other Matter**

The consolidated and separate financial statements of Faulu Microfinance Bank Kenya Limited for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements in a report dated 30 March 2022.

**Other Information included in the Group and Bank's 2022 Annual Report**

The other information comprises of included in the Annual Report, other than the consolidated and separate financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in the manner required the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Bank's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and the Bank or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether consolidated and separate financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We, also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's



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# REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

## Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

and the Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

In our opinion, the information given in the report of the directors on pages 7 to 9 is consistent with the consolidated and separate financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Denis Mugisha, Practising Certificate Number 2773.

For and on behalf of Ernst & young LLP
Certified Public Accountants
Nairobi, Kenya

31st March 2023



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# CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2022 | 2021 | 2022 | 2021 |
| | | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Interest income calculated using the effective interest method | 5 | 3,526,108 | 4,261,645 | 3,524,981 | 4,260,478 |
| Interest expense calculated using the effective interest rate method | 6 | (1,570,645) | (2,123,468) | (1,575,695) | (2,127,314) |
| Net interest income | | **1,955,463** | **2,138,177** | **1,949,286** | **2,133,164** |
| Fees and commissions Income | 7(a) | 521,565 | 575,658 | 476,313 | 526,854 |
| Fee and commission expense | 7(b) | (232,864) | (279,373) | (226,867) | (274,226) |
| *Foreign exchange gain | | 15,835 | 10,153 | 15,835 | 10,153 |
| Other income | 7(c) | 35,146 | 20,903 | 35,146 | 20,903 |
| **Operating income** | **8** | **2,295,145** | **2,465,518** | **2,249,713** | **2,416,848** |
| Administration and operating expenses | 9 | (2,489,484) | (2,441,573) | (2,473,410) | (2,423,443) |
| Impairment losses on loans and receivables | 11(a) | 205,569 | (516,915) | 205,938 | (518,235) |
| | | (2,283,915) | (2,958,488) | (2,267,472) | (2,941,678) |
| Net operating Profit/(loss) | | 11,229 | (492,970) | (17,759) | (524,830) |
| Share of associate company's profit | 18(a) | 3,856 | 3,174 | 3,856 | 3,174 |



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# CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2022 | 2021 | 2022 | 2021 |
| | | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **Profit/(Loss) before tax** | | **15,085** | **(489,796)** | **(13,903)** | **(521,656)** |
| Taxation | 12(a) | (316,469) | 105,260 | (306,954) | 114,988 |
| **Profit/(Loss) for the year** | | **(301,384)** | **(384,536)** | **(320,857)** | **(406,668)** |
| **Other comprehensive income** | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Surplus on revaluation of buildings | | 5,000 | - | 5,000 | - |
| Deferred tax liability arising on revaluation surplus | | (250) | - | (250) | - |
| **Other comprehensive income** | | 4,750 | | 4,750 | |
| **Total comprehensive Income for the year** | | **(296,634)** | **(384,536)** | **(316,107)** | **(406,668)** |

*Foreign exchange gain relates trading income and position management for revaluation gain



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# CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| **ASSETS** | **Note** | **Shs '000** | **Shs '000** | **Shs '000** | **Shs '000** |
| Local currency cash | | 352,551 | 388,285 | 352,551 | 388,285 |
| Balances due from banks and financial institutions | | 430,610 | 354,008 | 430,610 | 354,008 |
| Short term deposits with banks | 13 | - | 1,238,219 | - | 1,238,219 |
| Cash balances with Central Bank of Kenya | 14 | 926,455 | 1,059,127 | 926,455 | 1,059,127 |
| Loans to customers | 15 | 12,974,662 | 15,377,715 | 12,974,662 | 15,377,715 |
| Government securities | 16 | 4,158,849 | 5,008,746 | 4,148,845 | 4,997,463 |
| Other assets | 17 | 591,724 | 528,486 | 584,544 | 522,798 |
| Current tax assets | 12(c) | 340,535 | 293,406 | 328,979 | 284,275 |
| Due from related companies | 30(a) | 1,054 | 517 | 8,574 | 5,497 |
| Investment in associate companies | 18(a) | 60,873 | 58,174 | 60,873 | 58,174 |
| Investment in a subsidiary | | - | - | 5,000 | 5,000 |
| Deferred tax asset | 19 | 720,116 | 1,025,586 | 719,309 | 1,025,356 |
| Property and equipment | 20 | 1,260,312 | 1,438,511 | 1,260,078 | 1,438,234 |
| Intangible assets | 21 | 571,795 | 549,757 | 569,256 | 544,444 |
| Right-of-use assets | 22 | 334,285 | 480,956 | 334,285 | 480,956 |
| **TOTAL ASSETS** | | **22,723,821** | **27,801,493** | **22,704,021** | **27,779,551** |



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# CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| **LIABILITIES AND EQUITY** | | | | | |
| **LIABILITIES** | | | | | |
| Cash collaterals | 23 | 393,027 | 449,996 | 393,027 | 449,996 |
| Customer deposits | 24 | 15,742,106 | 20,997,414 | 15,856,491 | 21,074,297 |
| Borrowings | 25 | 1,265,338 | 692,139 | 1,265,338 | 692,139 |
| Other liabilities | 26 | 1,167,163 | 1,384,773 | 1,147,163 | 1,380,660 |
| Current tax liabilities | 12(c) | - | - | - | - |
| Due to related companies | 30(b) | 330,100 | 37,802 | 330,100 | 37,802 |
| Lease liabilities | 27 | 477,613 | 594,261 | 477,613 | 594,261 |
| | | **19,375,347** | **24,156,385** | **19,469,732** | **24,229,155** |
| **EQUITY** | | | | | |
| Share capital | 28 (a) | 659,996 | 659,996 | 659,996 | 659,996 |
| Share premium | 28 (b) | 3,769,763 | 3,769,763 | 3,769,763 | 3,769,763 |
| Accumulated deficit | | (1,361,352) | (1,059,968) | (1,475,537) | (1,154,680) |
| Revaluation surplus | | 280,067 | 275,317 | 280,067 | 275,317 |
| | | **3,348,474** | **3,645,108** | **3,234,289** | **3,550,396** |



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# CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| **TOTAL LIABILITIES AND EQUITY** | **22,723,821** | **27,801,493** | **22,704,021** | **27,779,551** |
| | ======== | ======== | ======== | ======== |

The financial statements on pages 20 to 88 were approved and authorised for issue by the board of directors on 30th March 2023 and were signed on its behalf by:

George A. Maina
Chairman of the Board

Sophia Mukoba
Director

Apollo N. Njoroge
Managing Director

James W. Murage
Company Secretary



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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | GROUP | | | | |
|---|---|---|---|---|---|
| | Share capital Shs'000 | Share premium Shs'000 | Accumulated deficit Shs'000 | Revaluation surplus Shs'000 | Total Shs'000 |
| At 1 January 2021 | 480,000 | 2,899,759 | (675,432) | 275,317 | 2,979,644 |
| Total comprehensive income for the year | - | - | (384,536) | - | (384,536) |
| Issue of share capital | 179,996 | 870,004 | - | - | 1,050,000 |
| **As at 31 December 2021** | **659,996** | **3,769,763** | **(1,059,968)** | **275,317** | **3,645,108** |
| At 1 January 2022 | 659,996 | 3,769,763 | (1,059,968) | 275,317 | 3,645,108 |
| Total comprehensive income for the year | - | - | (301,384) | - | (301,384) |
| Revaluation surplus | | | | 4,750 | 4,750 |
| **As at 31 December 2022** | **659,996** | **3,769,763** | **(1,361,352)** | **280,067** | **3,348,474** |

Revaluation surplus arises on revaluation of freehold land and buildings and it is not distributable.



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# BANK'S STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | BANK | | | | |
|---|---|---|---|---|---|
| | Share capital Shs'000 | Share premium Shs'000 | Accumulated deficit Shs'000 | Revaluation surplus Shs'000 | Total Shs'000 |
| At 1 January 2021 | 480,000 | 2,899,759 | (748,012) | 275,317 | 2,907,064 |
| Total comprehensive income for the year | - | - | (406,668) | - | (406,668) |
| Increase in share capital | 179,996 | 870,004 | - | - | 1,050,000 |
| As at 31 December 2021 | **659,996** | **3,769,763** | **(1,154,680)** | **275,317** | **3,550,396** |
| At 1 January 2022 | 659,996 | 3,769,763 | (1,154,680) | 275,317 | 3,550,396 |
| Total comprehensive income for the year | - | - | (320,857) | - | (320,857) |
| Increase in share capital | - | - | - | - | - |
| Revaluation surplus | | | | 4,750 | 4,750 |
| **As at 31 December 2022** | **659,996** | **3,769,763** | **(1,475,537)** | **280,067** | **3,234,289** |

Revaluation surplus arises on revaluation of freehold land and buildings, and it is not distributable.



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# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2022 | 2021 | 2022 | 2021 |
| | Note | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash generated from operations | 29(a) | (4,500,470) | (713,373) | (4,550,490) | (741,235) |
| Interest received | | 3,288,917 | 4,154,793 | 3,288,918 | 4,154,793 |
| Interest paid | | (1,233,431) | (2,063,698) | (1,233,431) | (2,063,698) |
| Tax paid | 12(c) | (57,221) | (101,004) | (44,704) | (85,564) |
| Net cash generated from operating activities | | (2,502,205) | 1,276,718 | (2,539,707) | 1,264,296 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from disposal of property and equipment | | 43,511 | 42,977 | 43,511 | 42,977 |
| Purchases of investment securities | | (1,100,000) | (210,314) | (1,100,000) | (210,314) |
| Sales/maturities of investment securities | | 1,175,658 | 3,666,900 | 1,175,658 | 3,666,900 |
| Purchase of property and equipment | 20 | (144,849) | (2,859,105) | (144,849) | (2,847,822) |
| Purchase of intangible assets | 21 | (98,703) | (1,139) | (98,703) | - |
| Net cash used in investing activities | | (124,383) | 639,319 | (124,383) | 651,741 |



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# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2022 | 2021 | 2022 | 2021 |
| | Note | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Borrowings received | 29(c) | 1,100,000 | 525,000 | 1,100,000 | 525,000 |
| Borrowings repaid | 29(c) | (526,801) | (1,850,153) | (526,801) | (1,850,153) |
| Lease repayments- principal | 27 | (169,691) | (159,638) | (169,691) | (159,638) |
| Payment of interest on lease | 27 | (58,915) | (56,343) | (58,915) | (56,343) |
| Proceed from issue of share capital | | - | 1,050,000 | - | 1,050,000 |
| Net cash used in financing activities | | 344,593 | (491,134) | 344,593 | (491,134) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | (2,319,497) | 1,424,903 | (2,319,497) | 1,424,903 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 3,502,658 | 2,077,755 | 3,502,658 | 2,077,755 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 29(b) | 1,183,161 | 3,502,658 | 1,183,161 | 3,502,658 |



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## 1 Significant Accounting Policies

**Statement of compliance**

The financial statements of Faulu Microfinance Bank Limited ("the Bank") have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015. The financial statements have been presented in Kenya shilling as rounded and all values are rounded to the nearest thousand (000), except when otherwise indicated..

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

**Application of new and revised International Financial Reporting Standards (IFRSs)**

(i) **New accounting standards adopted by the Group.**

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The new and amended standards and interpretations effective as of 1 January 2022 and are discussed below. The adoption of the standard and amendments did not have an impact on the financial statements of the Group.

| New standard or amendments | Effective for annual periods beginning on or after |
|---|---|
| Reference to the Conceptual Framework – Amendments to IFRS 3 | 1 January 2022 |
| Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16 | 1 January 2022 |
| Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 | 1 January 2022 |
| IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter | 1 January 2022 |
| IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities | 1 January 2022 |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022
**Significant Accounting Policies (continued)**

(ii) **New accounting standards in issue but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements which are relevant to the Group are discussed below. The Group intends to adopt these standards, if applicable, when they become effective. These standards are not expected to have a material impact on the Group's financial statements.

| | Effective for annual periods beginning or after |
|---|---|
| IFRS 17 Insurance Contracts | 1 January 2023 |
| Definition of Accounting Estimates - Amendments to IAS 8 | 1 January 2023 |
| Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 | 1 January 2023 |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 | 1 January 2023 |
| Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 | 1 January 2024 |
| Classification of Liabilities as Current or Non-current - Amendments to IAS 1 | 1 January 2024 |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 | Postponed indefinitely |

**Definition of Accounting Estimates - Amendments to IAS 8**

The amendments to IAS 8, introduce a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's financial statements.

**Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2**

The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12**

The amendments narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group is currently assessing the impact of the amendments.

The other new accounting standards amendments not discussed above are not expected to have a material impact on the Group's financial statements.



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**Significant Accounting Policies (continued)**

**Basis of Preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for investment
properties, certain office properties (classified as property, plant and equipment), derivative financial
instruments, debt and equity financial assets and contingent consideration that have been measured at
fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated
financial statements are presented in Kenya shillings and all values are rounded to the nearest thousand (Shs 000), except when otherwise indicated.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiary Faulu Bancassurance Intermediary Limited as at 31 December each year. Subsidiaries are those entities in which the Bank has power to exercise control over the operations of the entities. Control is achieved when the Bank:

- Has the power over the investee (i.e existing rights that give it the current ability to
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

a) **Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognised within the profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the gross carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the profit or loss.



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

**b) Investment in associate company**

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

**c) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**(i) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**(ii) Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.



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**ACCOUNTING POLICIES (Continued)**

**Taxation (Continued)**

**Deferred tax (Continued)**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**c) Fees and commission**

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Loan based fee is a one-off charge to the customer to facilitate loan disbursement.

Other fees and commission income, including account servicing fees, are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received over time.

**d) Property and equipment**

**Cost/revaluation**

Land and buildings are initially recorded at cost.

Buildings and Freehold land are subsequently stated at fair value less accumulated depreciation and accumulated impairment losses Fair values of land and buildings are determined by an independent professional valuer on a triennial basis and whenever their carrying amounts are likely to differ materially from their fair values. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset. Revaluation surpluses are taken to the asset revaluation reserve, unless they offset previous revaluation losses of the same asset that were taken to the profit or loss.

Revaluation losses are taken to the asset revaluation reserve, to the extent that they offset previous revaluation surpluses of the same asset that were taken to the asset revaluation reserve. Other revaluation surpluses or losses are taken to profit or loss.

Any revaluation increase arising on revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus reserve relating to a previous revaluation of that asset.

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

**Depreciation**

Depreciation on property and equipment is calculated on the reducing balance at the following annual rates:



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**ACCOUNTING POLICIES (Continued)**

**Property and equipment (Continued)**

| | |
|---|---|
| Motor vehicles | 25.0% |
| Computers and equipment | 30.0% |
| Electronic office equipment | 25.0% |
| Durable non-electrical equipment | 12.5% |
| Buildings on freehold land | 2.5% |
| Freehold land | nil |

Depreciation is recognised in profit or loss. On subsequent sale or retirement of a revalued property and equipment, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to revenue reserves within equity. Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the profit or loss) and the depreciation based on the assets' original cost is transferred from the revaluation surplus to revenue reserves, net of related deferred taxation.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Work in progress**

Work in progress relates to construction of the banking halls for the branches. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to property and equipment once is completed and commissioned. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**Review of residual values, useful lives**

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

**e) Intangible assets - computer software development costs**

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a reducing basis over the estimated useful lives ranging from 3 – 8 years.

**f) Leases**

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

**Discount rate**

The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The discount rate used is the incremental borrowing rate at 10.8% the rate that the Group will be charged if it borrows at the current market.



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**ACCOUNTING POLICIES (Continued)**

**Leases (Continued)**

**Lease term/period**

The lease period/term is determined by reviewing the signed lease contract i.e. at the commencement of the lease and end of the lease period.

**Lease payments**

The lease payments are paid in advance at the beginning of each quarter from the commencement lease date. The lease payments varies with lessors where some lease contracts have fixed payments while others have variables with escalation clauses.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used) a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use asset comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use asset is depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use asset is presented as a separate line in the statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Operating expenses' in the statement of the profit or loss.

In addition, the right of use asset is periodically reduced by impairment losses if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases less than 12 months and leases of low value assets.

**g) Impairment of tangible and intangible assets**

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**ACCOUNTING POLICIES (Continued)**

**Impairment of tangible and intangible assets (Continued)**

have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**h) Retirement benefit obligations**

**(i) Bank's defined contribution pension scheme**

The Bank operates a defined contribution pension scheme for its permanent employees. The assets of the scheme are held and administered independently of the Bank's assets. The scheme is funded by contributions from both the Bank and employees. The Bank's contribution to the scheme is limited to 10 per cent of the employees' basic salary while employees contribute 5 per cent of their basic salary. The Bank's contribution is charged to the profit or loss in the year to which it relates.

**(ii) Statutory defined contribution pension scheme**

The Bank also contributes to the statutory National Social Security Fund. This is a defined contribution scheme to which the Bank's obligation is limited to a specified contribution per employee per month and is charged to the profit or loss in the year to which it relates.

**(iii) Other employee entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the liability for annual leave outstanding at the end of each reporting period.

**i) Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are recognised in profit or loss in the period in which they arise.



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**j) Financial instruments**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Classification and measurement**

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

- measured at amortised cost;
- at fair value through other comprehensive income (FVOCI); and
- at fair value through profit or loss (FVTPL)

Financial instruments measured at amortised cost, per IFRS, in this AFS refer to financing arrangements and other assets.

**Amortised cost**

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

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

The Group recognises cash and balances with the Central Bank of Kenya, balances due from banking institutions, investment in government securities and all other financial assets at amortised cost.

**Fair Value through Other Comprehensive Income (FVOCI)**

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

The Group has no financial assets classified at FVOCI.

**Fair Value through Profit or Loss (FVTPL)**

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

The Group does not have financial assets classified at FVTPL. A financial asset is classified into one of these categories on initial recognition.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**ACCOUNTING POLICIES (Continued)**

**Financial instruments (Continued)**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Groups's borrowers operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant decrease in the borrower's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term,
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.



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**ACCOUNTING POLICIES (Continued)**

**Financial instruments (Continued)**

*i)* **Definition of default**

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the borrower; or
- information developed internally or obtained from external sources indicates that the borrower is unlikely to pay its lenders and or creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*ii)* **Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

*iii)* **Write-off policy**

The Group writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the borrower has been placed under liquidation or has entered into bankruptcy proceedings, or, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any recoveries made are recognised in profit or loss.

*iv)* **Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.
For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.
If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**ACCOUNTING POLICIES (Continued)**

**Measurement and recognition of expected credit losses (Continued)**

As explained above, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition.

**Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

**Financial liabilities**

After initial recognition, the Group measures all financial liabilities including customer deposits, cash collaterals other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when and only when the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Borrowings**

Borrowings are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**k) Offsetting financial instruments**

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position where there is a legal enforceable right to set off the recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liability simultaneously.

**l) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

**m) Statutory reserve**

Where impairment losses required by the Microfinance (Deposit Taking Institutions) Regulation 2008 issued by the Central Bank of Kenya exceed those computed under International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation from revenue reserves. The reserve is not available for distribution.



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**n) Revaluation reserve**

This arises on revaluation of land and buildings and is not distributable. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

**o) Share capital**

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

**p) Provisions and contingent liabilities**

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognized because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognized but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical accounting judgements in applying the Group's policies**

**Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

**Significant increase in credit risk**

As explained in note 1, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. An asset moves to stage 3 when has significant increase in credit risk plus observable evidence of impairment i.e. have defaulted.

IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Taxation provisions**

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

**Calculation of loss allowance:**

When measuring expected credit losses, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

**Property and equipment**

Critical estimates are made by the Directors in determining the useful lives of property equipment and intangible assets

**Fair value measurement and valuation**

Some of the group's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the Group uses market – observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

**Leases**

Judgement is required in determination of the appropriate rate to discount the lease payments and the assessment of whether a right-of-use asset is impaired.



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## 3. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risks

### a) Credit risk

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

**Credit risk management**

The Groups's Risk Compliance and Credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

**Significant increase in credit risk**

As explained in note 1 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**
**Credit risk(Continued)**

credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

**Internal credit risk ratings**

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes.

Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.
- The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify



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**FINANCIAL RISK MANAGEMENT (Continued)**
**Credit risk(Continued)**
**Significant increase in credit risk (Continued)**

significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Group has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group uses internal experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

**Measurement of ECL**

The key inputs used for measuring ECL are:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**
**Credit risk(Continued)**
**Measurement of ECL (Continued)**

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the
characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below on Groupings based on shared risks characteristics.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;
- Date of Initial recognition;
- Remaining term to maturity;
- Industry;
- Geographic location of the borrower; and
- Income bracket of the borrower.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit quality

The Group monitors credit risk per class of financial instrument. An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.



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**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

**(i) Management of credit risk**

**Concentrations of assets:**

Details of significant concentrations of the Group's financial assets and liabilities by industry groups are as detailed below:

| Principal loans to customers | 2022 Shs '000 | % | 2021 Shs '000 | % |
|---|---|---|---|---|
| Agriculture | 374,155 | 2% | 467,800 | 3% |
| Trade | 3,977,473 | 26% | 4,967,480 | 27% |
| Consumer | 10,833,187 | 71% | 12,441,028 | 70% |
| | **15,184,815** | **100%** | **17,876,308** | **100%** |

**Cash Collaterals**

| | | | | |
|---|---|---|---|---|
| Agriculture | 18,987 | 5% | 18,627 | 4% |
| Trade | 357,831 | 91% | 412,808 | 92% |
| Consumer | 16,211 | 4% | 18,561 | 4% |
| | **393,029** | **100%** | **449,996** | **100%** |

**(ii) Maximum exposure to credit risk before collateral held**

| | 2022 Shs '000 | 2022 % | 2021 Shs '000 | 2021 % |
|---|---|---|---|---|
| **Credit exposure on balance sheet items :** | | | | |
| Short term deposits with banks | - | 0% | 1,238,813 | 4% |
| Loans to customers | 16,084,000 | 74% | 18,697,071 | 70% |
| Government securities | 4,180,021 | 19% | 5,028,220 | 19% |
| Bank balances | 430,682 | 2% | 354,008 | 1% |
| Cash balances with Central Bank of Kenya | 926,455 | 4% | 1,059,127 | 4% |
| Other Assets | 315,446 | 1% | 442,756 | 2% |
| **Total gross carrying amount** | **21,936,604** | **100%** | **26,819,995** | **100%** |
| **Allowance for credit losses (Note 11(b))** | **(3,152,968)** | **100%** | **(3,366,652)** | **100%** |
| **Net carrying amount** | **18,783,636** | | **23,453,343** | |

*Other assets include Bank guarantees, Over drafts, and other financial assets.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

An analysis of the Groups' credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**31 December 2022**

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Grade 1: Normal | 9,167,259 | 17,438 | 1,067 | 9,185,764 |
| Grade 2: Watch | 1,537,491 | 101,312 | 5,797 | 1,644,600 |
| Grade 3: Substandard | 106,343 | 393,495 | 6,583 | 506,421 |
| Grade 4: Doubtful | 159 | 257,525 | 17,826 | 275,510 |
| Grade 5: Loss | 9,666 | 56,934 | 4,405,105 | 4,471,705 |
| **Total gross carrying amount** | **10,820,918** | **826,704** | **4,436,378** | **16,084,000** |
| Allowance for credit losses | (97,723) | (89,304) | (2,922,311) | (3,109,338) |
| **Net carrying amount** | **10,723,195** | **737,400** | **1,514,067** | **12,974,662** |

**31 December 2021**

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Grade 1: Normal | 11,792,184 | 11,678 | 2,520 | 11,806,382 |
| Grade 2: Watch | 1,944,923 | 32,305 | 2,732 | 1,979,960 |
| Grade 3: Substandard | 1,235 | 304,543 | 2,303 | 308,081 |
| Grade 4: Doubtful | 46,192 | 461,793 | 549 | 508,534 |
| Grade 5: Loss | 343 | 16,533 | 4,077,238 | 4,094,114 |
| **Total gross carrying amount** | **13,784,877** | **826,852** | **4,085,342** | **18,697,071** |
| Allowance for credit losses | (276,704) | (305,911) | (2,736,741) | (3,319,356) |
| **Net carrying amount** | **13,508,173** | **520,941** | **1,348,601** | **15,377,715** |



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**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

An analysis of the Groups' credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**31 December 2022**

| Loss allowance- Loans and advances to customers at amortized cost | Stage 1 12-month ECL Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Grade 1: Normal | 75,836 | 2,257 | 528 | 78,621 |
| Grade 2: Watch | 14,687 | 10,935 | 2,983 | 28,605 |
| Grade 3: Substandard | 3,311 | 32,956 | 3,656 | 39,923 |
| Grade 4: Doubtful | 1 | 32,811 | 6,085 | 38,897 |
| Grade 5: Loss | 3,888 | 10,345 | 2,909,059 | 2,923,292 |
| **Total credit losses** | **97,723** | **89,304** | **2,922,311** | **3,109,338** |

**31 December 2021**

| Loss allowance- Loans and advances to customers at amortized cost | Stage 1 12-month ECL Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Grade 1: Normal | 236,705 | 4,321 | 1,688 | 242,714 |
| Grade 2: Watch | 39,040 | 11,951 | 1,830 | 52,821 |
| Grade 3: Substandard | 25 | 112,672 | 1,543 | 114,240 |
| Grade 4: Doubtful | 927 | 170,850 | 368 | 172,145 |
| Grade 5: Loss | 7 | 6,117 | 2,731,312 | 2,737,436 |
| **Total credit losses** | **276,704** | **305,911** | **2,736,741** | **3,319,356** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

The tables below analyse the movement of the loss allowance during the year per class of assets.

**31 December 2022**

| Loss allowance- Loans and advances to customers at amortized cost | Stage 1 12-month ECL Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Loss allowance as at 1 January 2022 | (276,704) | (305,911) | (2,736,741) | (3,319,356) |
| Amount charged to P/L (sub-total of the items below) | 61,705 | 36,841 | 103,726 | 202,272 |
| Originations, purchases, and interest accruals | (67,664) | (42,035) | (58,448) | (168,147) |
| Repayments & other derecognitions, excluding write-offs | 186,511 | 91,805 | 92,102 | 370,418 |
| Changes in the loss allowance | | | | - |
| - Transfer to stage 1 | 5,665 | (887) | (4,778) | - |
| - Transfer to stage 2 | (29,926) | 34,443 | (4,517) | - |
| - Transfer to stage 3 | 84,395 | 133,281 | (217,676) | - |
| - Changes due to modification that did not result in derecognition. | | | | |
| - Changes to model and risk parameters used for ECL calculations | | | | |
| - Write-offs | - | - | 7,747 | 7,747 |
| **Loss allowance as at 31 December 2022** | **(97,723)** | **(89,304)** | **(2,922,311)** | **(3,109,338)** |

**31 December 2021**

| Loss allowance- Loans and advances to customers at amortized cost | Stage 1 12-month ECL Shs '000 | Stage 2 Life-time ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Loss allowance as at 1 January 2021 | (391,667) | (380,843) | (2,349,268) | (3,121,778) |
| Amount charged to P/L (sub-total of the below items) | 114,963 | 74,932 | (706,616) | (516,721) |
| Originations, purchases, and interest accruals | (474,117) | (25,763) | (123,448) | (623,328) |
| Repayments & other derecognitions, excluding write-offs | 27,025 | 16,685 | 132,123 | 175,833 |
| Changes in the loss allowance | | | | |
| - Transfer to stage 1 | (198,038) | 99,622 | 98,416 | - |
| - Transfer to stage 2 | 343,439 | (367,095) | 23,656 | - |
| - Transfer to stage 3 | 511,528 | 417,470 | (928,998) | - |
| - Changes due to modification that did not result in derecognition. | | | | |
| - Changes to model and risk parameters used for ECL calculations | (94,874) | (65,987) | 91,635 | (69,226) |
| - Write-offs | - | - | 319,143 | 319,143 |
| **Loss allowance as at 31 December 2021** | **(276,704)** | **(305,911)** | **(2,736,741)** | **(3,319,356)** |



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**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

The tables below analyse the movement of the loss allowance during the year per class of assets.

**31 December 2022**

| Loss allowance- Other financial assets at amortised cost | Stage 1 12-month ECL Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Loss allowance as at 1 January 2022 | (31,485) | (1,051) | (14,760) | (47,296) |
| Amount charged to P/L (sub-total of the below items) | 251 | 4,629 | (8,546) | (3,666) |
| Changes in the loss allowance | | | | |
| - Transfer to stage 1 | - | - | - | - |
| - Transfer to stage 2 | - | - | - | - |
| - Transfer to stage 3 | - | - | - | - |
| - Increases due to change in credit risk | - | - | - | - |
| - Decreases due to change in credit risk | - | - | - | - |
| - Write-offs | - | - | - | - |
| New financial assets originated or purchased | (966) | (3,387) | - | (4383) |
| Financial assets that have been derecognised | | | 8,049 | 8,049 |
| **Loss allowance as at 31 December 2021** | **(32,481)** | **(4,438)** | **(6,711)** | **(43,630)** |

**31 December 2021**

| Loss allowance- Other financial assets at amortised cost | Stage 1 12-month ECL Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| Loss allowance as at 1 January 2021 | (26,753) | (10,583) | (8,446) | (45,782) |
| Amount charged to P/L (sub-total of the below items) | (4,732) | 9,532 | (6,314) | (1,514) |
| Changes in the loss allowance | | | | |
| - Transfer to stage 1 | - | - | - | - |
| - Transfer to stage 2 | - | - | - | - |
| - Transfer to stage 3 | - | - | - | - |
| - Increases due to change in credit risk | - | - | - | - |
| - Decreases due to change in credit risk | - | - | - | - |
| - Write-offs | - | - | - | - |
| New financial assets originated or purchased | (4,732) | | (6,314) | (11,046) |
| Financial assets that have been derecognised | - | 9,532 | - | 9,532 |
| **Loss allowance as at 31 December 2021** | **(31,485)** | **(1,051)** | **(14,760)** | **(47,296)** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

The tables below analyse the movement of the gross carrying amount during the year per class of assets.

**31 December 2022**

| **Banking**<br>**Gross carrying amounts- Loans and advances to customers at amortised cost** | **Stage 1 12-month Shs'000** | **Stage 2 Lifetime Shs'000** | **Stage 3 Lifetime Shs'000** | **Total Shs'000** |
|---|---|---|---|---|
| **Gross carrying as at 1 January 2021** | **13,784,877** | **826,852** | **4,085,342** | **18,697,071** |
| Changes in the loss allowance | | | | |
| - Transfer to stage 1 | 146,767 | (85,237) | (61,530) | - |
| - Transfer to stage 2 | (429,782) | 446,350 | (16,568) | - |
| - Transfer to stage 3 | (461,039) | (266,094) | 727,133 | - |
| - Write-offs | - | - | (7,747) | (7,747) |
| New financial assets originated or purchased | 6,257,473 | 252,256 | 125,205 | 6,634,934 |
| Financial assets that have been derecognised | (8,477,378) | (347,423) | (415,457) | (9,240,258) |
| **Gross carrying amounts as at 31 December 2022** | **10,820,918** | **826,704** | **4,436,378** | **16,084,000** |

**31 December 2021**

| **Banking**<br>**Gross carrying amounts- Loans and advances to customers at amortised cost** | **Stage 1 12-month Shs'000** | **Stage 2 Lifetime Shs'000** | **Stage 3 Lifetime Shs'000** | **Total Shs'000** |
|---|---|---|---|---|
| **Gross carrying as at 1 January 2021** | **15,751,288** | **889,366** | **4,042,286** | **20,682,940** |
| Changes in the loss allowance | | | | |
| - Transfer to stage 1 | 292,066 | (163,220) | (128,846) | - |
| - Transfer to stage 2 | (496,250) | 524,754 | (28,504) | - |
| - Transfer to stage 3 | (1,007,387) | (449,059) | 1,456,446 | - |
| - Write-offs | - | - | (319,143) | (319,143) |
| New financial assets originated or purchased | 7,825,787 | 315,948 | 159,351 | 8,301,086 |
| Financial assets that have been derecognised | (8,580,627) | (290,937) | (1,096,248) | (9,967,812) |
| **Gross carrying amounts as at 31 December 2021** | **13,784,877** | **826,852** | **4,085,342** | **18,697,071** |



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**FINANCIAL RISK MANAGEMENT (Continued)**

**a) Credit risk(Continued)**

**Credit Quality (Continued)**

The tables below analyse the movement of the gross carrying amount during the year per product.

**31 December 2022**

| Gross carrying amounts- Loans and advances to customers at amortized cost | Stage 1 12-month Shs '000 | Stage 2 Lifetime Shs '000 | Stage 3 Lifetime Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **SME** | | | | |
| **Gross carrying as at 1 January 2022** | **1,600,518** | **55,021** | **1,406,036** | **3,061,575** |
| - Transfer to stage 1 | 9,303 | (3,198) | (6,105) | - |
| - Transfer to stage 2 | (115,113) | 116,545 | (1,432) | 0 |
| - Transfer to stage 3 | (6,105) | (17,735) | 23,840 | - |
| - Write-offs | - | - | | |
| New financial assets originated or purchased | 732,881 | 38,365 | 16,578 | 787,824 |
| Financial assets that have been derecognized | (905,032) | (17,834) | (40,408) | (963,274) |
| **Gross carrying amounts as at 31 December 2022** | **1,316,452** | **171,164** | **1,398,509** | **2,886,125** |
| **Community** | | | | |
| Gross carrying as at 1 January 2022 | 1,357,379 | 169,305 | 1,125,246 | 2,651,930 |
| - Transfer to stage 1 | 3,877 | (2,833) | (1,044) | - |
| - Transfer to stage 2 | (48,642) | 48,966 | (324) | - |
| - Transfer to stage 3 | (94,061) | (69,710) | 163,772 | - |
| - Write-offs | - | - | 7,747 | 7,747 |
| New financial assets originated or purchased | 595,174 | 100,571 | 53,750 | 749,495 |
| Financial assets that have been derecognized | (1,042,291) | (94,308) | (103,596) | (1,240,195) |
| **Gross carrying amounts as at 31 December 2022** | **771,436** | **151,991** | **1,245,551** | **2,168,977** |

| Gross carrying amounts- Loans and advances to customers at amortized cost | Stage 1 12-month Shs '000 | Stage 2 Lifetime Shs '000 | Stage 3 Lifetime Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **Retail** | | | | |
| **Gross carrying as at 1 January 2022** | **10,826,980** | **602,526** | **1,554,060** | **12,983,566** |
| - Transfer to stage 1 | 133,588 | (79,207) | (54,381) | - |
| - Transfer to stage 2 | (266,027) | 280,839 | (14,812) | (0) |
| - Transfer to stage 3 | (289,842) | (178,649) | 468,491 | - |
| - Write-offs | | | | |
| New financial assets originated or purchased | 4,929,416 | 113,321 | 54,877 | 5,097,614 |
| Financial assets that have been derecognized | (6,601,086) | (235,281) | (215,915) | (7,052,282) |
| **Gross carrying amounts as at 31 December 2022** | **8,733,029** | **503,549** | **1,792,320** | **11,028,898** |
| **Grand Total amounts as at 31 December 2022** | **10,820,916** | **826,703** | **4,436,379** | **16,084,000** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**a) Credit risk(Continued)**

**Credit Quality (Continued)**

The tables below analyse the movement of the gross carrying amount during the year per product.

**31 December 2021**

| Gross carrying amounts- Loans and advances to customers at amortized cost | Stage 1 12-month Shs '000 | Stage 2 Lifetime Shs '000 | Stage 3 Lifetime Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **SME** | | | | |
| **Gross carrying as at 1 January 2021** | **1,581,930** | **107,080** | **1,769,895** | **3,458,905** |
| - Transfer to stage 1 | 97,042 | (44,629) | (52,413) | - |
| - Transfer to stage 2 | (41,075) | 46,996 | (5,921) | - |
| - Transfer to stage 3 | (466,116) | (36,932) | 503,048 | - |
| - Write-offs | - | - | (311,584) | (311,584) |
| New financial assets originated or purchased | 1,192,560 | 13,817 | 2,293 | 1,208,670 |
| Financial assets that have been derecognized | (763,823) | (31,311) | (499,282) | (1,294,416) |
| **Gross carrying amounts as at 31 December 2021** | **1,600,518** | **55,021** | **1,406,036** | **3,061,575** |
| **Community** | | | | |
| Gross carrying as at 1 January 2021 | 1,263,122 | 157,639 | 1,115,784 | 2,536,545 |
| - Transfer to stage 1 | 23,945 | (5,728) | (18,217) | - |
| - Transfer to stage 2 | (111,186) | 113,396 | (2,210) | - |
| - Transfer to stage 3 | (334,195) | (173,000) | 507,195 | - |
| - Write-offs | - | - | (4,564) | (4,564) |
| New financial assets originated or purchased | 1,393,253 | 126,169 | 73,346 | 1,592,768 |
| Financial assets that have been derecognized | (877,560) | (49,171) | (546,088) | (1,472,819) |
| **Gross carrying amounts as at 31 December 2021** | **1,357,379** | **169,305** | **1,125,246** | **2,651,930** |

| Gross carrying amounts- Loans and advances to customers at amortized cost | Stage 1 12-month Shs '000 | Stage 2 Lifetime Shs '000 | Stage 3 Lifetime Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **Retail** | | | | |
| Gross carrying as at 1 January 2021 | 12,906,234 | 624,648 | 1,156,608 | 14,687,490 |
| - Transfer to stage 1 | 171,081 | (112,865) | (58,216) | - |
| - Transfer to stage 2 | (343,991) | 364,363 | (20,372) | - |
| - Transfer to stage 3 | (207,076) | (239,127) | 446,203 | - |
| - Write-offs | - | - | (2,994) | (2,994) |
| New financial assets originated or purchased | 5,239,975 | 175,962 | 83,709 | 5,499,646 |
| Financial assets that have been derecognized | (6,939,243) | (210,455) | (50,878) | (7,200,576) |
| **Gross carrying amounts as at 31 December 2021** | **10,826,980** | **602,526** | **1,554,060** | **12,983,566** |
| **Grand Total amounts as at 31 December 2021** | **13,784,877** | **826,852** | **4,085,342** | **18,697,071** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**a) Credit risk(Continued)**

The tables below analyse the movement of the credit loss allowance amount during the year per product.

| 31 December 2022 | Stage 1 Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **SME** | | | | |
| **Loss allowance as at 1 January 2022** | **(7,767)** | **(21,760)** | **(685,565)** | **(715,092)** |
| Amount charged to P&L (sub-total) | 554 | -1,795 | -11,986 | (13,227) |
| Originations, purchases, and interest accruals | (2,113) | (2,212) | (4,647) | (8,972) |
| Repayments & other derecognitions, excl write-offs | 9,456 | 46 | 2,646 | 12,148 |
| Changes in the loss allowance | | | | |
| -Transfer to stage 1 | (15) | 16 | (1) | - |
| -Transfer to stage 2 | (3,470) | 5,721 | (2,251) | - |
| -Transfer to stage 3 | 1,038 | 12,480 | (13,518) | - |
| -Changes due to modification that did not result in derecognition. | | | | |
| -Changes to model and risk parameters used for ECL calculations | | | | |
| -Write-offs | | | | |
| **Loss allowance as at 31 December 2022** | **(2,871)** | **(5,709)** | **(703,336)** | **(711,916)** |
| **Community** | | | | |
| **Loss allowance as at 1 January 2022** | **(47,426)** | **(42,004)** | **(1,101,802)** | **(1,191,232)** |
| Amount charged to P&L (sub-total) | 3,648 | (1,096) | (32,081) | (29,529) |
| Originations, purchases, and interest accruals | (11,793) | (22,815) | (31,956) | (66,564) |
| Repayments & other derecognitions, excl write-offs | 116,924 | 85,345 | 950 | 203,219 |
| Changes in the loss allowance | | | | |
| -Transfer to stage 1 | 49 | (36) | (13) | - |
| -Transfer to stage 2 | (5,739) | 5,742 | (3) | - |
| -Transfer to stage 3 | (64,679) | (55,320) | 119,999 | - |
| -Changes due to modification that did not result in derecognition. | | | | |
| -Changes to model and risk parameters used for ECL calculations | | | | |
| -Write-offs | | | 7,747 | 7,747 |
| **Loss allowance as at 31 December 2022** | **(12,664)** | **(29,088)** | **(1,005,078)** | **(1,046,830)** |
| **Retail** | | | | |
| **Loss allowance as at 1 January 2022** | **(221,513)** | **(263,838)** | **(1,252,327)** | **(1,737,678)** |
| Amount charged to P&L (sub-total) | 57,503 | 39,732 | 147,792 | 245,027 |
| Originations, purchases and interest accruals | (53,757) | (17,008) | (22,794) | (93,560) |
| Repayments & other derecognitions, excl write-offs | 278,052 | 150,607 | 51,986 | 480,645 |
| Changes in the loss allowance | | | | |
| -Transfer to stage 1 | 5,632 | (868) | (4,764) | - |
| -Transfer to stage 2 | (20,717) | 25,229 | (4,512) | - |
| -Transfer to stage 3 | (69,886) | 51,371 | 18,515 | - |
| -Changes due to modification that did not result in derecognition. | | | | |
| -Changes to model and risk parameters used for ECL calculations | | | | |
| -Write-offs | | | | |
| **Loss allowance as at 31 December 2022** | **(82,189)** | **(54,507)** | **(1,213,896)** | **(1,350,592)** |
| **Grand Total Loss Allowance as at 31 December 2022** | **(97,723)** | **(89,304)** | **(2,922,311)** | **(3,109,338)** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**a) Credit risk(Continued)**

**Credit Quality (Continued)**

The tables below analyse the movement of the credit loss allowance amount during the year per product.

| 31 December 2021 | Stage 1 Shs '000 | Stage 2 Lifetime ECL Shs '000 | Stage 3 Lifetime ECL Shs '000 | Total Shs '000 |
|---|---|---|---|---|
| **SME** | | | | |
| **Loss allowance as at 1 January 2021** | **(9,853)** | **(5,394)** | **(1,030,713)** | **(1,045,960)** |
| Amount charged to P&L (sub-total) | 2,086 | 5,326 | (148,698) | (141,286) |
| Originations, purchases and interest accruals | (2,485) | 162 | 188 | (2,135) |
| Repayments & other derecognitions, excl write-offs | 6,851 | 710 | 31 | 7,592 |
| Changes in the loss allowance | | | | - |
| -Transfer to stage 1 | (58,225) | 26,777 | 31,448 | - |
| -Transfer to stage 2 | 24,643 | (28,196) | 3,553 | - |
| -Transfer to stage 3 | 35,349 | 6,217 | (41,566) | - |
| -Changes due to modification that did not result in derecognition. | | | | - |
| -Changes to model and risk parameters used for ECL calculations | (4,047) | (344) | 39,910 | 35,519 |
| -Write-offs | - | - | 311,584 | 311,584 |
| **Loss allowance as at 31 December 2021** | **(7,767)** | **(68)** | **(685,565)** | **(693,400)** |
| **Community** | | | | |
| **Loss allowance as at 1 January 2021** | **(95,617)** | **(49,294)** | **(618,402)** | **(763,313)** |
| Amount charged to P&L (sub-total) | 48,192 | 7,290 | (185,014) | (129,532) |
| Originations, purchases and interest accruals | (100,959) | (6,159) | (54,942) | (162,060) |
| Repayments & other derecognitions, excl write-offs | 35,102 | 18,045 | 26,229 | 79,376 |
| Changes in the loss allowance | | | | |
| -Transfer to stage 1 | (19,156) | 4,583 | 14,573 | - |
| -Transfer to stage 2 | 66,712 | (68,479) | 1,767 | - |
| -Transfer to stage 3 | 120,045 | 66,263 | (186,308) | - |
| -Changes due to modification that did not result in derecognition. | | | | |
| -Changes to model and risk parameters used for ECL calculations | (53,553) | (6,963) | 13,667 | (46,849) |
| -Write-offs | - | - | 4,564 | 4,564 |
| **Loss allowance as at 31 December 2021** | **(47,426)** | **(42,004)** | **(798,852)** | **(888,282)** |
| **Retail** | | | | |
| **Loss allowance as at 1 January 2021** | **(286,197)** | **(326,156)** | **(882,415)** | **(1,494,768)** |
| Amount charged to P&L (sub-total) | 64,686 | 62,318 | (372,906) | (245,902) |
| Originations, purchases and interest accruals | (370,674) | (19,766) | (68,694) | (459,134) |
| Repayments & other derecognitions, excl write-offs | 117,193 | 130,055 | 23,878 | 271,126 |
| Changes in the loss allowance | | | | |
| -Transfer to stage 1 | (120,656) | 68,262 | 52,394 | - |
| -Transfer to stage 2 | 252,084 | (270,419) | 18,335 | - |
| -Transfer to stage 3 | 224,011 | 212,866 | (436,877) | - |
| -Changes due to modification that did not result in derecognition. | | | | |
| -Changes to model and risk parameters used for ECL calculations | (37,274) | (58,680) | 38,058 | (57,896) |
| -Write-offs | - | - | 2,994 | 2,994 |
| **Loss allowance as at 31 December 2021** | **(221,513)** | **(263,838)** | **(1,252,327)** | **(1,737,678)** |
| **Grand Total Loss Allowance as at 31 December 2021** | **(276,703)** | **(305,910)** | **(2,736,744)** | **(3,319,357)** |



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**FINANCIAL RISK MANAGEMENT (Continued)**
**a) Credit risk(Continued)**
**Credit Quality (Continued)**

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

**Loans to customers**

| | Gross<br>Shs '000 | Net<br>Shs '000 |
|---|---|---|
| **31 December 2022** | | |
| IFRS 9 Stage 1 (0- 30 days) | 10,820,918 | 10,723,194 |
| IFRS 9 Stage 2 (31- 90 days) | 826,704 | 737,401 |
| IFRS 9 Stage 3(Over 90 days) | 4,436,378 | 1,514,067 |
| | **16,084,000** | **12,974,662** |
| **31 December 2021** | | |
| IFRS 9 Stage 1 (0- 30 days) | 13,784,877 | 13,508,173 |
| IFRS 9 Stage 2 (31- 90 days) | 826,852 | 520,941 |
| IFRS 9 Stage 3(Over 90 days) | 4,085,342 | 1,348,601 |
| | **18,697,071** | **15,377,715** |

**Cash Collateral held**

The Group's cash collateral consists of collateral held against loans and receivables from group customers (note 23). The fair value of cash collateral is Shs (393,026,527.26) (2021: Shs 449,995,000).

Other forms of collateral include land, buildings and motor vehicles with total capped value of Shs.3.2 billion (2021: Shs 3.4 Billion)

**b) Liquidity risk**

The Group is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Risk Compliance and Credit Committee is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity ratio as at 31 December 2022 was 29.6% (2021: 34.2%). The Central Bank of Kenya minimum liquidity regulatory requirement is 20%.

(ii) Source of funding

The Group has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base of customers. The Group also borrows from the banks and other financial institutions for short term liquidity requirements.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**b) Liquidity risk(Continued)**

| As at December 2022 | Maturing in less than 1 month Shs '000 | 1 month less than 3 months Shs '000 | 3 month less than 6 month Shs '000 | 6 month less than 1 year Shs '000 | 1 year less than 3 year Shs '000 | 3 year less than 5 year Shs '000 | Over 5 years Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Cash collateral held | 60,621 | 132,476 | 70,344 | 81,409 | 46,293 | 1,690 | 195 | 393,028 |
| Borrowings | 6,944 | 258,393 | 175,000 | 425,000 | - | 841,847 | - | 1,707,184 |
| Customer deposits | 6,401,924 | 4,873,779 | 2,853,692 | 1,606,495 | 117,563 | 3,037 | - | 15,856,490 |
| **Total liabilities (contractual maturity dates)** | **6,469,489** | **5,264,648** | **3,099,036** | **2,112,904** | **163,856** | **846,574** | **195** | **17,956,702** |
| CONTIGENT LIABILITIES | | | 5,000 | | 17,500 | 2,000 | 37,000 | 61,500 |
| FINANCIAL GUARANTEES | - | 5,000 | - | 6,000 | - | - | - | 11,000 |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and bank balances | 783,294 | - | - | - | - | - | - | 783,294 |
| Short term deposits | - | - | - | - | - | - | - | - |
| Cash reserve requirement | 926,477 | - | - | - | - | - | - | 926,477 |
| Government securities | 100,000 | 99,784 | 300,000 | - | - | 300,000 | 3,200,000 | 3,999,784 |
| Loans to customers (net) | 814,486 | 1,788,625 | 1,039,345 | 1,639,786 | 4,060,323 | 2,390,322 | 1,241,775 | 12,974,662 |
| **Total assets (expected maturity dates)** | **2,624,257** | **1,888,409** | **1,339,345** | **1,639,786** | **4,060,323** | **2,690,322** | **4,441,775** | **18,684,217** |
| **NET LIQUIDITY EXCESS/GAP** | **(3,845,232)** | **(3,376,239)** | **(1,759,691)** | **(473,118)** | **3,896,467** | **1,843,748** | **4,441,580** | **727,515** |
| **As at 31 December 2021** | | | | | | | | |
| Total liabilities (contractual maturity dates) | 8,071,962 | 6,836,268 | 3,655,412 | 2,746,025 | 419,777 | 6,476 | 953,067 | 22,688,987 |
| Total assets (expected maturity dates) | 7,013,722 | 2,419,682 | 1,887,004 | 2,115,839 | 5,145,182 | 3,284,753 | 2,550,886 | 24,417,068 |
| **NET LIQUIDITY EXCESS/GAP** | **(1,058,240)** | **(4,416,586)** | **(1,768,408)** | **(630,186)** | **4,725,405** | **3,278,277** | **1,597,819** | **1,728,081** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**b) Liquidity risk(Continued)**

| As at December 2021 | Maturing in less than 1 month Shs '000 | 1 month less than 3 months Shs '000 | 3 month less than 6 month Shs '000 | 6 month less than 1 year Shs '000 | 1 year less than 3 year Shs '000 | 3 year less than 5 year Shs '000 | Over 5 years Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Cash collateral held | 54,034 | 30,513 | 59,124 | 110,746 | 189,103 | 6,476 | - | 449,996 |
| Borrowings | 6,944 | 33,520 | 20,834 | 61,297 | 163,888 | - | 953,067 | 1,239,550 |
| Customer deposits | 8,010,984 | 6,772,235 | 3,575,454 | 2,573,982 | 66,786 | - | - | 20,999,441 |
| **Total liabilities (contractual maturity dates)** | **8,071,962** | **6,836,268** | **3,655,412** | **2,746,025** | **419,777** | **6,476** | **953,067** | **22,688,987** |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and bank balances | 742,355 | - | - | - | - | - | - | 742,355 |
| Short term deposits | 622,688 | 52,650 | 549,524 | 6,664 | - | - | - | 1,231,526 |
| Cash reserve requirement | 1,059,152 | - | - | - | - | - | - | 1,059,152 |
| Government securities | 3,460,637 | 1,050,000 | - | 400,000 | - | - | - | 4,910,637 |
| Loans to customers (net) | 1,128,890 | 1,317,032 | 1,337,480 | 1,709,175 | 5,145,182 | 3,284,753 | 2,550,886 | 16,473,398 |
| Total assets (expected maturity dates) | 7,013,722 | 2,419,682 | 1,887,004 | 2,115,839 | 5,145,182 | 3,284,753 | 2,550,886 | 24,417,068 |
| **NET LIQUIDITY GAP** | **(1,058,240)** | **(4,416,586)** | **(1,768,408)** | **(630,186)** | **4,725,405** | **3,278,277** | **1,597,819** | **1,728,081** |
| | ======== | ========== | ======== | ========== | ======== | ======== | ======== | ========= |
| **As at 31 December 2020** | | | | | | | | |
| Total liabilities (contractual maturity dates) | 8,605,673 | 7,863,257 | 5,010,452 | 2,861,798 | 598,077 | 7,695 | 1,681 | 24,948,633 |
| Total assets (expected maturity dates) | 6,022,542 | 2,274,149 | 2,066,528 | 2,100,262 | 5,873,729 | 4,017,765 | 2,998,317 | 25,353,291 |
| **NET LIQUIDITY GAP** | **(2,583,131)** | **(5,589,108)** | **(2,943,924)** | **(761,536)** | **5,275,652** | **4,010,070** | **2,996,636** | **404,658** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**c) Market Risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risks**

Overall authority for market risk is vested in the Board Risk & Compliance Committee which is responsible for the development of detailed risk management policies. The policies are subject to review and approval by the Board.

**Exposure to interest rate risk**

The Group is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The Board Risk & Compliance Committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the end of reporting period. The Group maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the Group's lending rate or the Group's rates are adjusted from time to time to reflect the cost of deposits.

Interest rates on cash collateral held are determined by the Group with the Group retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, may fluctuate depending on the movement in the market interest rates. The Group also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the Group. It is unusual for a company's assets and liabilities to be completely matched due to the nature of business terms and types.

Included in the table overleaf are financial assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**FINANCIAL RISK MANAGEMENT (Continued)**

**c) Market risk(Continued)**

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not bear an interest rate risk on off statement of financial position items. (All figures are in Kenya Shillings).

| | Less than 1 month Shs '000 | 1 month less than 3 months Shs '000 | 3 months less than 6 months Shs '000 | 6 months less than 1 year Shs '000 | 1 year less than 3 year Shs '000 | 3 year less than 5 year Shs '000 | Over 5 years Shs '000 | Non-interest bearing Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|---|---|
| **A. FINANCIAL ASSETS** | | | | | | | | | |
| Cash and bank balances | 783,294 | - | - | - | - | - | - | - | 783,294 |
| Short term deposits | - | - | - | - | - | - | - | - | - |
| Cash reserve ratio (CBK) | - | - | - | - | - | - | - | 926,477 | 926,477 |
| Government securities | 100,000 | 99,784 | 300,000 | - | - | - | - | 3,500,000 | 3,999,784 |
| Loans to customers (net) | 814,486 | 1,788,624 | 1,039,345 | 1,639,786 | 4,060,323 | 2,390,322 | 1,241,775 | - | 12,974,662 |
| Total financial assets | 1,697,780 | 1,888,408 | 1,339,345 | 1,639,786 | 4,060,323 | 2,390,322 | 1,241,775 | 4,426,477 | 18,684,217 |
| **B. FINANCIAL LIABILITIES** | | | | | | | | | |
| Borrowings | 6,944 | 258,393 | 175,000 | 425,000 | - | 400,000 | - | - | 1,265,338 |
| Customer deposits | 6,401,925 | 4,873,779 | 2,853,693 | 1,606,495 | 117,563 | 3,037 | - | - | 15,856,491 |
| Cash collateral held | - | - | - | - | - | - | - | 393,027 | 393,027 |
| Total financial liabilities | 6,408,869 | 5,132,172 | 3,028,693 | 2,031,495 | 117,563 | 403,037 | - | 393,027 | 17,514,856 |
| **C. On statement of financial position-interest sensitivity gap** | **(4,711,089)** | **(7,954,853)** | **(9,644,201)** | **(10,035,910)** | **(6,093,150)** | **(4,105,865)** | **(2,864,090)** | **1,169,360** | **2,338,721** |
| **D. As at 31 December 2021** | | | | | | | | | |
| Total financial assets | 5,954,570 | 2,419,682 | 1,887,004 | 2,115,839 | 5,145,182 | 3,284,753 | 2,550,886 | 1,059,152 | 24,417,068 |
| Total financial liabilities | 8,017,928 | 6,805,755 | 3,596,288 | 2,635,279 | 230,674 | - | 400,000 | 449,996 | 22,135,921 |
| **E. On statement of financial position- interest sensitivity gap** | **(2,063,358)** | **(4,386,073)** | **(1,709,284)** | **(519,440)** | **4,914,508** | **3,284,753** | **2,150,886** | **609,156** | **2,281,147** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

**3. FINANCIAL RISK MANAGEMENT (Continued)**
**c) Market risk(Continued)**

**Interest rate risk stress test**

The impact that an immediate hypothetical increase or decrease in interest rates of 3% applied at the beginning of the year would have on the profit for the year assuming a growing balance sheet and current interest rate risk profile would be as follows:

| | | 2022 Shs'000 | | 2021 Shs'000 |
|---|---|---|---|---|
| | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| 3% increase in interest rates | 61,843 | 43,290 | (43,501) | (30,451) |
| | ======= | ====== | ======= | ====== |
| 3% decrease in interest rates | (61,843) | (43,290) | 43,501 | 30,451 |

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

**Currency risk**

The Group operates wholly within Kenya and its assets and liabilities are reported in the local currency.
The Group's currency position is as follows. Amounts in Shs '000

| | Shs | USD | Euro | GBP | Total |
|---|---|---|---|---|---|
| **A. ASSETS** | | | | | |
| Cash and bank balances | 721,697 | 398,873 | 54,409 | 26,488 | **783,294** |
| Short term deposits with banks | - | - | - | | **-** |
| Cash reserve ratio (CBK) | 926,477 | - | - | | **926,477** |
| Government securities | 3,999,784 | - | - | | **3,999,784** |
| Loans to customers (net) | 12,974,662 | - | - | | **12,974,662** |
| **Total financial assets** | **18,622,620** | **398,873** | **54,409** | **26,488** | **18,684,217** |
| **B. LIABILIIES** | | | | | |
| Cash collateral held | 393,027 | - | - | - | **393,027** |
| Borrowings | 1,265,338 | - | - | | **1,265,338** |
| Customer deposits | 15,792,342 | 473,424 | 67 | 29,523 | **15,856,491** |
| **Total financial liabilities** | **17,450,707** | **473,424** | **67** | **29,523** | **17,514,856** |
| **C. NET BALANCE SHEET POSITION** | **245,436** | **(74,551)** | **54,342** | **(3,035)** | **242,884** |
| **As at 31 December 2021** | | | | | |
| **A. Total financial assets** | **22,699,893** | **173,058** | **2,811** | **539,055** | **23,414,817** |
| **B. Total financial liabilities** | **21,475,050** | **195,314** | **4** | **546,064** | **22,216,432** |
| **C. NET BALANCE SHEET POSITION** | **1,224,843** | **(22,256)** | **2,807** | **(7,009)** | **1,198,385** |



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**FINANCIAL RISK MANAGEMENT (Continued)**
**c) Market risk(Continued)**

The table below summarizes the estimated impact of a 10% decline/appreciation of the Kenya Shilling against the two major currencies traded by the Group i.e. the US Dollar and the Euro.

| | 2022 Shs'000 Effect on profit before tax | 2021 Shs'000 Effect on profit before tax | 2022 Shs'000 Effect on Equity | 2021 Shs'000 Effect on Equity |
|---|---|---|---|---|
| **Currency – Euro** | | | | |
| + 10% Shs movement | (5,434) | (2,196) | 8,033 | (2,196) |
| - 10% Shs movement | 5,434 | 2,196 | (8,033) | 2,196 |
| **Currency - US dollars** | | | | |
| + 10% Shs movement | 7,455 | (10,660) | (10,333) | (10,660) |
| - 10% Shs movement | (7,455) | 10,660 | 10,333 | 10,660 |
| **Currency – GBP** | | | | |
| + 10% Shs movement | (2,649) | (350,361) | 4,430 | (350,361) |
| - 10% Shs movement | 2,649 | 350,361 | (4,430) | 350,361 |

## 4) CAPITAL RISK MANAGEMENT

The Central Bank of Kenya sets and monitors capital requirements for microfinance banks.

The Microfinance bank regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which is the summation of tier 1 capital and qualifying subordinated liabilities and 25% of revaluation reserve.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 % of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of the Bank and certain other regulatory items.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The institution's aim is to build a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2022

### 4. CAPITAL RISK MANAGEMENT (Continued)

In implementing current capital requirements, the Central Bank of Kenya requires each microfinance bank to maintain;

A minimum level of regulatory capital of Shs 60 million.
A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10%.
Core capital of not less than 8% of total deposit liabilities.
Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.
Faulu Microfinance Bank Limited did not breach any regulatory capital ratios within the year 2022. However, in 2021, Faulu Microfinance Bank Limited reported some breaches in the regulatory capital ratios within the year 2021.The main shareholder Old Mutual East Africa Holdings Group Limited (Old Mutual (EA) Holding Limited) injected capital amounting to Shs. 1.45 billion on 31 March 2021. The capital was divided into Tier 1 Shs 550 million and Tier 2 Shs 900 million.

The capital position as at 31 December 2022 was as follows;

The Insurance Regulatory Authority (IRA) requires each insurance broker and agency to maintain a minimum level of regulatory capital of Shs 5,000,000 (2021 Shs 5,000,000). As at 31 December 2022, the subsidiary Faulu Bancassurance Intermediary Limited had a capital of Shs 119,184,517 (2021: Shs 99,796,000).

| | BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| **Tier 1 capital** | | |
| Share capital | 659,996 | 659,996 |
| Share premium | 3,769,763 | 3,769,763 |
| Accumulated deficit | (1,167,262) | (982,138) |
| Total deductions | (1,093,456) | (1,261,071) |
| | 2,169,041 | 2,186,550 |
| **Tier 2 capital** | | |
| Revaluation reserve | 70,018 | 68,830 |
| Term subordinated debt | 400,000 | 400,000 |
| | 470,018 | 468,830 |
| **Regulatory capital** | **2,639,059** | **2,655,381** |
| **Total risk-weighted assets** | **14,943,053** | **17,885,295** |
| **Borrowings** | **1,265,338** | **692,139** |
| **Capital ratios** | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum -12%) | 17.7% | 14.8% |
| Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum -10%) | 14.5% | 12.2% |

**Capital allocation.**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk & Compliance and Credit Departments, and is subject to review by the Board Credit Committee or Assets and Liability Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the theBank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.



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## 5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Loans and receivables | 3,005,741 | 3,647,803 | 3,005,741 | 3,647,803 |
| Short term bank deposits | 21,872 | 63,734 | 21,872 | 63,734 |
| Government securities | 498,495 | 550,108 | 497,368 | 548,941 |
| | **3,526,108** | **4,261,645** | **3,524,981** | **4,260,478** |

## 6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Savings accounts | 1,408,495 | 1,844,966 | 1,413,545 | 1,848,812 |
| | 103,235 | 222,159 | 103,235 | 222,159 |
| Borrowed funds | | | | |
| Interest expense on lease liability | 58,915 | 56,343 | 58,915 | 56,343 |
| | **1,570,645** | **2,123,468** | **1,575,695** | **2,127,314** |

## 7(a) FEES AND COMMISSIONS INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Registration fees | 474 | 528 | 474 | 528 |
| Loan set up fees | 251,435 | 295,257 | 251,435 | 295,257 |
| Commission (net) | 260,436 | 263,087 | 215,184 | 214,283 |
| Chattels mortgage fees | 9,220 | 16,786 | 9,220 | 16,786 |
| | **521,565** | **575,658** | **476,313** | **526,854** |

## 7(b) FEE AND COMMISSION EXPENSE

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Commission on sales | 136,161 | 177,291 | 130,164 | 172,144 |
| Bank charges | 28,102 | 31,332 | 28,102 | 31,332 |
| Other fees and commission | 68,601 | 70,750 | 68,601 | 70,750 |
| | **232,864** | **279,373** | **226,867** | **274,226** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022

### 7 (c) OTHER INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Bad debts recovered | 20,725 | 20,790 | 20,725 | 20,790 |
| Other income | 14,421 | 113 | 14,421 | 113 |
| | **35,146** | **20,903** | **35,146** | **20,903** |

Other income comprises of donations income received during the period.

### 8. OPERATING INCOME AND NET OPERATING LOSS

Management has presented operating income and net operating loss in the statement of profit or loss because it monitors these performance measure in its operations and believes that these measures are relevant to understanding of the Group's and Bank's financial performance.

Operating income represents the interest, fees and commission income, less interest on customer deposits and borrowings. It is calculated to exclude the impact of other income, risk mitigation costs, operating expenditure, impairment charges and foreign exchange differences. Operating income is not a defined performance measure in IFRS Standards hence the Group's definition may not be comparable with similarly titled performance measures and disclosures by other entities.

Net operating loss represents It is calculated to exclude the impact of administrative and other operating expenses and impairment loss, impairment charges. Net operating loss is not a defined performance measure in IFRS Standards hence the Group's definition may not be comparable with similarly titled performance measures and disclosures by other entities.

### 9. ADMINISTRATION AND OPERATING EXPENSES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Staff costs (note 10) | 987,389 | 1,007,463 | 978,363 | 998,591 |
| Office operations and supplies | 544,434 | 579,851 | 544,434 | 579,641 |
| Training and evaluation | 12,478 | 6,149 | 12,478 | 6,149 |
| Office rent and repairs | 11,543 | 6,579 | 11,543 | 6,579 |
| Travelling expenses | 34,267 | 34,939 | 34,267 | 34,939 |
| Depreciation of property and equipment | 129,446 | 137,002 | 129,403 | 136,949 |
| Depreciation on right of use assets | 206,245 | 200,328 | 206,245 | 200,328 |
| Audit fees | 10,748 | 6,490 | 10,203 | 5,965 |
| (Gain)/loss on disposal of motor vehicle | 63,006 | 176 | 63,006 | 176 |
| Amortisation of intangible assets | 76,665 | 82,009 | 73,891 | 79,551 |
| Directors' fees | 17,817 | 18,168 | 16,281 | 14,562 |
| Insurance costs | 102,823 | 78,363 | 102,823 | 78,363 |
| Group cost | 194,385 | 126,175 | 194,385 | 126,175 |
| Other expenses | 97,628 | 157,881 | 95,477 | 155,475 |
| | **2,488,874** | **2,441,573** | **2,472,799** | **2,423,443** |

Other expenses comprise of marketing and advertising, deposit protection fund, printing & stationery, group cost and other general expenses.



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## 10. STAFF COSTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Staff salaries and wages | 761,750 | 787,381 | 753,669 | 779,336 |
| Medical expenses | 90,305 | 122,725 | 90,305 | 122,725 |
| Defined contribution pension scheme | 63,276 | 58,055 | 63,276 | 58,055 |
| Statutory pension contribution (NSSF) | 680 | 3,319 | - | 2,730 |
| Recruitment | 932 | 1,056 | 932 | 1,056 |
| Staff welfare & entertainment | 15,902 | 4,883 | 15,900 | 4,883 |
| Staff bonus | 35,944 | 12,124 | 35,754 | 12,032 |
| Leave provision | 16,041 | 13,110 | 15,968 | 13,019 |
| Staff welfare-other | 2,559 | 4,810 | 2,559 | 4,755 |
| | **987,389** | **1,007,463** | **978,363** | **998,591** |

## 11a) IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| At 1 January | 3,367,837 | 3,170,065 | 3,366,652 | 3,167,560 |
| Additional provision during the year | (205,569) | 516,915 | (205,938) | 518,235 |
| Loans Written off during the year | (7,746) | (319,143) | (7,746) | (319,143) |
| **At 31 December** | **3,154,522** | **3,367,837** | **3,152,968** | **3,366,652** |

**b) The closing balance as at 31 December 2022 is split as follows:**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Loans to customers | 3,109,338 | 3,319,356 | 3,109,338 | 3,319,356 |
| Cash balances with Central Bank of Kenya | 22 | 25 | 22 | 25 |
| Balances due from banks and financial institutions | 72 | 55 | 72 | 55 |
| Short term deposits banks | 62 | 600 | 62 | 600 |
| Government securities | 31,176 | 30,757 | 31,176 | 30,757 |
| Other assets | 13,852 | 17,044 | 12,298 | 15,859 |
| | **3,154,522** | **3,367,837** | **3,152,968** | **3,366,652** |

## 12. TAXATION

**a) Tax income**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Current tax: | | | | |
| Based on the adjusted profit for the year at 30% (2021 - 30%) | 9,475 | 9,590 | - | - |
| Prior year under provision of current tax | 618 | 138,782 | - | 138,782 |
| Share of associate company taxation (note 18(a)) | 1,157 | 952 | 1,157 | 952 |
| Total current tax charge | 11,250 | 149,324 | 1,157 | 139,734 |
| Deferred tax: | | | | |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Deferred tax credit for current year | 8,520 | (128,080) | 9,224 | (128,226) |
| Prior under provision of deferred tax asset (note 19) | (11,576) | (126,504) | (11,702) | (126,496) |
| Deferred tax impaired* | 308,275 | | 308,275 | |
| Total deferred tax credit | 305,219 | (254,586) | 305,797 | (254,722) |
| **Tax income** | **316,469** | **(105,260)** | **306,954** | **(114,988)** |

*The bank impaired deferred tax asset by Shs 308,275,024 (2021, nil)

**b) Reconciliation of expected tax based on accounting loss to tax income**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Accounting loss before tax | 15,209 | (489,796) | (13,779) | (524,829) |
| Tax at the applicable rate of 30% (2021: 30%) | 4,562 | (146,939) | (4,134) | (157,449) |
| Tax effect of expenses not deductible for tax purposes | 13,433 | 29,951 | 13,358 | 29,223 |
| Prior year under provision of current tax | 618 | 138,782 | - | 138,782 |
| Prior year over/under provision of deferred tax asset (note 19) | (11,576) | (126,504) | (11,702) | (126,496) |
| Effect of change in tax rate on deferred tax 30% (2021: 30%) | - | (1,502) | - | - |
| Deferred tax impaired | 308,275 | | 308,275 | |
| | 315,312 | (106,212) | 305,797 | (115,940) |
| Share of associate company tax (note 18(a) | 1,157 | 952 | 1,157 | 952 |
| | **316,469** | **(105,260)** | **306,954** | **(114,988)** |

**c) Current tax**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| At 1 January | (293,406) | (334,779) | (284,275) | (337,493) |
| Charge for the year | 9,475 | 9,506 | - | - |
| Prior year under provision of current tax | 617 | 138,782 | - | 138,782 |
| Paid in the year | (57,221) | (101,004) | (44,704) | (85,564) |
| Written back to profit or loss | - | (5,911) | - | - |
| At 31 December | (340,535) | (293,406) | (328,979) | (284,275) |
| Current tax assets | (340,535) | (293,406) | (328,979) | (284,275) |
| Current tax liabilities | - | - | - | - |
| | **(340,535)** | **(293,406)** | **(328,979)** | **(284,275)** |



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## 13. SHORT TERM DEPOSITS WITH BANKS

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| **Amortized cost** | Shs '000 | Shs '000 |
| The Co-operative Bank of Kenya Limited | - | 224,137 |
| Kenya Commercial Bank PLC | - | 184,985 |
| Equity Bank PLC | - | - |
| Stanbic Bank Kenya Limited | - | 251,674 |
| Diamond Trust Bank | - | 274,510 |
| Family Bank Limited | - | - |
| SBM Bank Limited | - | 303,507 |
| | - | 1,238,813 |
| Less: allowance for credit losses (Note (11(b)) | - | (594) |
| | **-** | **1,238,219** |

Effective interest rate average 3.3% in 2022 and 5.9% in 2021. All the deposits have maturity of not more than 90 days.

## 14. CASH BALANCES WITH CENTRAL BANK OF KENYA

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Gross Cash reserve requirement | 926,477 | 1,059,152 |
| Less: allowance for credit losses (Note (11(b)) | (22) | (25) |
| | **926,455** | **1,059,127** |

As at 31 December 2022, the cash ratio requirement was 5.36% (2021: 4.25%) of eligible deposits. These funds are not available for the day-to-day operations of the Group and are non-interest bearing. The Banks's cash ratio at the end of the reporting period was 5.43 % (2021: 5.43%)

## 15. LOANS TO CUSTOMERS

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Gross loans to customers | 15,184,815 | 17,876,308 |
| Interest receivable from loans and advances to customers | 2,076,527 | 1,840,464 |
| Less: allowance for credit losses (Note (11(b)) | (3,109,338) | (3,319,356) |
| Less Suspended Interest | (948,693) | (674,630) |
| Less Customer loan Prepayments(UNC) | (228,649) | (345,071) |
| | **12,974,662** | **15,377,715** |

The effective interest rate on customer advances at 31 December 2022 was 18.0% (2021: 19.5%). Advances to customers are secured by cash collaterals (note 23) and chattels mortgages. Other forms of collateral include land, buildings, and motor vehicles.

## 16. GOVERNMENT SECURITIES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Treasury bonds - Amortised cost | | | | |
| Maturing within 1 year | - | - | - | - |
| Maturing between 1 and 3 years | - | - | - | - |
| Maturing over 3 years | 3,690,501 | 3,517,779 | 3,680,237 | 3,506,074 |
| **Treasury bonds – FVPL** | **99,784** | **-** | **99,784** | **-** |
| | **3,790,285** | **3,517,779** | **3,780,021** | **3,506,074** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **Treasury bills – Amortised cost** | **400,000** | **1,522,146** | **400,000** | **1,522,146** |
| | **4,190,285** | **5,039,925** | **4,180,021** | **5,028,220** |
| Less: Allowance for credit losses (Note (11(b)) | (31,436) | (31,179) | (31,176) | (30,757) |
| | **4,158,849** | **5,008,746** | **4,148,845** | **4,997,463** |

The effective interest rate on government securities during the year ended 31 December 2022 was 12.8%
(2021 – 11.7%).

Treasury bonds worth Shs 450 million (2021: Shs. 450 million) are pledged as security for the Absa Bank Kenya PLC borrowing shown on note 25.

## 17. OTHER ASSETS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Staff receivables | 19,556 | 12,735 | 19,556 | 12,735 |
| Prepaid expenses | 147,625 | 140,578 | 147,625 | 139,584 |
| Deposits and sundry receivables | 438,135 | 386,338 | 429,662 | 386,338 |
| Commission receivable | - | 5,457 | - | - |
| | **605,316** | **545,108** | **596,843** | **538,657** |
| Less: allowance for credit losses (note (11(b)) | (13,592) | (16,622) | (12,299) | (15,859) |
| | **591,724** | **528,486** | **584,544** | **522,798** |

## 18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY

### (a) Investments in associate company

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| **Faulu Advisory Services Limited:** | | |
| At 1 January | 58,174 | 55,952 |
| Share of profit for the year | 3,856 | 3,174 |
| Share of tax expense (note 12(a)) | (1,157) | (952) |
| At 31 December | **60,873** | **58,174** |

The reporting date of Faulu Advisory Services Limited ("Faulu Advisory") is 31 December. Faulu Advisory is incorporated in Kenya which is also its principal place of business. The Group holds 25% ownership interest in the associate company. Its principal activity is guaranteeing loans advanced by the Bank Limited and training beneficiaries of microfinance loans on business related courses.

Summarised financial information below represents amounts shown in the associate's unaudited financial statements (adjusted by the Group for equity accounting purposes) as of 31 December:

| | 2022 | 2021 |
|---|---|---|
| | Shs '000 | Shs '000 |
| Non-current assets | 16,108 | 27,099 |
| Current assets | 135,445 | 127,334 |
| | 151,553 | 154,433 |
| Current liabilities | **(29,180)** | **(33,875)** |
| Revenue | 80,832 | 64,030 |
| Profit from continuing operations before tax | 21,639 | 14,104 |
| Other comprehensive income | - | - |
| Total comprehensive income | 21,639 | 14,104 |



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## 18) INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY (Continued)(b)

**Investments in Subsidiary - Faulu Bancassurance Intermediary Limited**

Group financial statements include the results of a subsidiary of the Bank, Faulu Bancassurance Intermediary Limited. The principal activity of the subsidiary company is the provision of insurance agency services.

The subsidiary company's financial year-end is 31 December and is incorporated as a limited liability company. It is incorporated in Kenya under the Companies Act 2015 and domiciled in Kenya.
This subsidiary is 100% owned and fully controlled by the Group. This investment is recognised at a cost of Shs. 5,000,000 (2021: Shs. 5,000,000) in the Group's financial statements.

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

The results and net assets of the subsidiary company are as outlined below:
Faulu Bancassurance Intermediary Limited

| | 2022 Shs '000 | 2021 Shs '000 |
|---|---|---|
| **Summarised statement of financial position** | | |
| Total assets | 146,705 | 108,890 |
| Total liabilities | 27,520 | 9,094 |
| Net assets | **174,225** | **117,984** |
| **Summarised statement of profit and loss and other comprehensive income** | | |
| Revenue | 45,432 | 48,670 |
| Profit before tax | 28,989 | 31,860 |
| Tax expense | (9,515) | (9,728) |
| Total comprehensive income for the year | **19,474** | **22,132** |
| **Summarised statement of cash flows** | | |
| Net cash generated from operating activities | 37,502 | 22,866 |
| Net cash generated from investing activities | - | (12,422) |
| Net increase in cash and cash equivalents | **37,502** | **10,444** |
| Cash and cash equivalents at the beginning of the year | **76,883** | **66,439** |
| Cash and cash equivalents at the end of the year | **114,385** | **76,883** |

## 19. DEFERRED TAX (ASSET)/ LIABILITY

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 Shs '000 | 2021 Shs '000 | 2022 Shs '000 | 2021 Shs '000 |
| The net deferred tax asset is attributable to the following items: | | | | |
| Excess depreciation of capital allowances | 77,069 | 102,987 | 77,410 | 102,861 |
| Deferred tax on revaluation surplus | 111,139 | 109,389 | 111,139 | 109,389 |
| Right of use assets | 100,285 | 144,287 | 100,285 | 144,287 |
| Provisions | (22,272) | (13,589) | (22,272) | (13,589) |
| Impairment loss allowance | (946,434) | (1,012,940) | (945,968) | (1,012,584) |
| Lease liabilities | (143,284) | (178,278) | (143,284) | (178,278) |
| Tax losses | (197,578) | (177,442) | (197,578) | (177,442) |
| Other temporary differences | (7,316) | | (7,316) | |
| Deferred tax impaired | 308,275 | | 308,275 | |
| | **(720,116)** | **(1,025,586** | **(719,309)** | **(1,025,356)** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022
### 19. DEFERRED TAX (ASSET)/ LIABILITY (Continued)

The Group's and Bank's movements in the deferred tax account during the year 2022 were as follows:

**Group**

| | At the beginning of the year | Prior year over/ under | Credit to P/L | At the end of the period |
|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Excess depreciation of capital allowances | 103,391 | 126 | (25,856) | 77,661 |
| Deferred tax on revaluation surplus | 106,802 | - | 1,500 | 108,302 |
| Right of use assets | 144,287 | - | (44,001) | 100,286 |
| Provisions | (10,429) | - | (9,101) | (19,530) |
| Impairment loss allowance | (1,021,052) | - | 64,028 | (957,024) |
| Lease liabilities | (178,278) | - | 34,994 | (143,284) |
| Tax losses | (170,307) | (11,702) | (12,793) | (194,802) |
| Deferred tax impaired | | | 308,275 | 308,275 |
| | **(1,025,586)** | **(11,576)** | **317,046** | **(720,116)** |

**Bank**

| | | | | |
|---|---|---|---|---|
| Excess depreciation of capital allowances | 102,861 | - | (25,389) | 77,472 |
| Deferred tax on revaluation surplus | 106,802 | - | 1,500 | 108,302 |
| Right of use assets | 144,287 | | (44,001) | 100,286 |
| Provision and accruals | (9,669) | | (8,865) | (18,534) |
| Impairment loss allowance | (1,021,052) | | 64,028 | (957,024) |
| Lease liabilities | (178,278) | | 34,994 | (143,284) |
| Tax losses | (170,307) | (11,702) | (12,793) | (194,802) |
| Deferred tax impaired | | | 308,275 | 308,275 |
| | **(1,025,356)** | **(11,702)** | **317,749** | **(719,309)** |



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**19. DEFERRED TAX (ASSET)/ LIABILITY (Continued)**

The Group's and Bank's movements in the deferred tax account for the year 2021 were as follows:

| 2021 | At the beginning of the year Shs '000 | Prior year over/under Shs '000 | Credit to P/L Shs '000 | At the end of the period Shs '000 |
|---|---|---|---|---|
| Excess depreciation of capital allowances | 116,062 | (119) | (12,552) | 103,391 |
| Deferred tax on revaluation surplus | 106,471 | 332 | - | 106,803 |
| Right of use assets | 102,502 | | 41,785 | 144,287 |
| Provisions | (14,620) | (9) | 4,200 | (10,429) |
| Impairment loss allowance | (954,736) | - | (66,317) | (1,021,053) |
| Lease liabilities | (126,680) | | (51,598) | (178,278) |
| Tax losses | - | (126,709) | (43,598) | (170,307) |
| | **(771,001)** | **(126,505)** | **(128,080)** | **(1,025,586)** |
| | | | | |
| Excess depreciation of capital allowances | 115,678 | (119) | (12,698) | 102,861 |
| Deferred tax on revaluation surplus | 106,471 | 332 | - | 106,802 |
| Right of use assets | 102,502 | - | 41,785 | 144,287 |
| Provision and accruals | (13,869) | - | 4,200 | (9,669) |
| Impairment loss allowance | (954,736) | - | (66,317) | (1,021,052) |
| Lease liabilities | (126,680) | | (51,598) | (178,278) |
| Tax losses | - | (126,709) | (43,598) | (170,307) |
| | **(770,634)** | **(126,496)** | **(128,226)** | **(1,025,356)** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2021

## 20. PROPERTY AND EQUIPMENT – GROUP

| | Freehold land and buildings | Motor vehicles | Computers and equipment | Electronic office equipment | Durable non-electrical equipment | Work in progress (WIP) | Total |
|---|---|---|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **COST/VALUATION** | | | | | | | |
| At 1 January 2021 | 435,624 | 36,624 | 181,635 | 242,892 | 1,601,324 | 147,055 | 2,645,154 |
| Additions | - | - | 17,141 | 73,672 | 8,441 | 111,060 | 210,314 |
| Transfer from WIP | - | - | - | 10,108 | 25,342 | (35,450) | - |
| Disposals | - | - | (3,291) | (4,784) | (518) | (35,959) | (44,552) |
| Assets written off | - | - | - | - | - | - | - |
| Revaluation surplus | - | - | - | - | - | - | 0 |
| **At 31 December 2021** | **435,624** | **36,624** | **195,485** | **321,888** | **1,634,589** | **186,706** | **2,810,916** |
| At 1 January 2022 | 435,624 | 36,624 | 195,485 | 321,888 | 1,634,589 | 186,706 | 2,810,916 |
| Additions | - | - | 22,224 | 9,289 | 6,300 | 8,333 | 46,146 |
| Transfer from WIP | - | - | - | - | 15,148 | (58,659) | (43,511) |
| Disposals | - | (191) | (33,110) | (16,470) | (162,770) | (2,498) | (215,039) |
| Revaluation surplus | 5,000 | - | - | - | - | - | 5,000 |
| **At 31 December 2022** | **440,624** | **36,433** | **184,599** | **314,707** | **1,493,267** | **133,882** | **2,603,512** |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2021 | 8,624 | 20,579 | 128,758 | 143,296 | 935,544 | - | 1,236,801 |
| Depreciation for the year | 1,342 | 4,011 | 18,215 | 32,978 | 80,456 | - | 137,002 |
| Eliminated on write off | - | - | - | - | - | - | - |
| Eliminated on disposals | - | - | (452) | (593) | (353) | - | (1,398) |
| **At 31 December 2021** | **9,966** | **24,590** | **146,521** | **175,681** | **1,015,647** | **-** | **1,372,405** |
| At 1 January 2022 | 9,966 | 24,590 | 146,521 | 175,680 | 1,015,647 | - | 1,372,404 |
| Depreciation for the year | 1,305 | 3,009 | 15,663 | 36,885 | 72,586 | - | 129,448 |
| Eliminated on disposals | - | (191) | (21,052) | (15,229) | (122,180) | - | (158,652) |
| At 31 December 2022 | 11,271 | 27,408 | 141,132 | 197,336 | 966,053 | - | 1,343,200 |
| **NET BOOK VALUE** | | | | | | | |
| At 31 December 2021 | 425,658 | 12,034 | 48,963 | 146,207 | 618,942 | 186,706 | 1,438,510 |
| **At 31 December 2022** | **429,353** | **9,025** | **43,471** | **117,371** | **527,214** | **133,882** | **1,260,312** |
| If the land and building in the group were measured using the cost model, the carrying amounts would be, as follows: | | | | | | | |
| Cost | | | | | | | 427,000 |
| **Accumulated depreciation and impairment** | | | | | | | **(11,271)** |
| **Net carrying amount** | | | | | | | **415,729** |



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## 20. PROPERTY AND EQUIPMENT – BANK

| | Freehold land and buildings | Motor vehicles | Computers and equipment | Electronic office equipment | Durable non-electrical equipment | Work in progress (WIP) | Total |
|---|---|---|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **COST/VALUATION** | | | | | | | |
| At 1 January 2021 | 435,624 | 36,624 | 181,384 | 242,863 | 1,600,970 | 147,055 | **2,644,520** |
| Additions | - | - | 17,141 | 73,672 | 8,441 | 111,060 | **210,314** |
| Transfer from WIP | - | - | - | 10,108 | 25,342 | (35,450) | **-** |
| Disposals | - | - | (3,291) | (4,784) | (518) | (35,959) | **(44,552)** |
| Assets written off | - | - | - | - | - | - | **-** |
| Revaluation surplus | - | - | - | - | - | - | **-** |
| **At 31 December 2021** | **435,624** | **36,624** | **195,234** | **321,859** | **1,634,235** | **186,706** | **2,810,282** |
| At 1 January 2022 | 435,624 | 36,624 | 195,234 | 321,859 | 1,634,235 | 186,706 | **2,810,282** |
| Additions | - | - | 22,224 | 9,289 | 6,300 | 8,333 | **46,146** |
| Transfer from WIP | - | - | - | - | 15,148 | (58,659) | **(43,511)** |
| Disposals | - | (191) | (33,110) | (16,470) | (162,770) | (2,498) | **(215,039)** |
| Revaluation surplus | 5,000 | - | - | - | - | - | **5,000** |
| **At 31 December 2022** | **440,624** | **36,433** | **184,348** | **314,678** | **1,492,913** | **133,882** | **2,602,878** |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2021 | 8,624 | 20,579 | 128,600 | 143,278 | 935,416 | - | **1,236,497** |
| Depreciation for the year | 1,342 | 4,011 | 18,197 | 32,975 | 80,424 | - | **136,949** |
| Eliminated on disposal | - | - | (452) | (593) | (353) | - | **(1,398)** |
| Eliminated on write off | - | - | - | - | - | - | **-** |
| **At 31 December 2021** | **9,966** | **24,590** | **146,345** | **175,660** | **1,015,487** | **-** | **1,372,048** |
| At 1 January 2022 | 9,966 | 24,590 | 146,345 | 175,660 | 1,015,487 | - | **1,372,048** |
| Depreciation for the year | 1,305 | 3,008 | 15,646 | 36,886 | 72,557 | - | **129,402** |
| Eliminated on disposals | - | (191) | (21,052) | (15,227) | (122,180) | - | **(158,650)** |
| At 31 December 2022 | 11,271 | 27,407 | 140,939 | 197,319 | 965,864 | - | **1,342,800** |
| **NET BOOK VALUE** | | | | | | | |
| At 31 December 2021 | 425,658 | 12,034 | 48,889 | 146,199 | 618,748 | 186,706 | **1,438,234** |
| **At 31 December 2022** | **429,353** | **9,026** | **43,409** | **117,359** | **527,049** | **133,882** | **1,260,078** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022
### 20. PROPERTY AND EQUIPMENT (Continued)

Land and buildings was revalued at Shs 440,624,067 as at 31 December 2022 by Gimco Limited, registered valuers.

At 31 December 2022, the net book value of the freehold land and building based on revalued amount was
Shs 429,352, 584 (2021: Shs 425,657,479)

The Group property and equipment balance of Shs. 1,260,311,887 (2021: Shs 1,438,511,185) includes the subsidiary's assets with a net book value of Shs 233,804 (2021: Shs 276,951).

The Group has assessed that the highest and best use of its properties does not differ from their current use.

Fair value measurement of the Group's freehold land and buildings

The items of the Group's land and buildings are stated at their revalued amounts, being the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings is done every two years based on management assessment that the changes in fair value of the freehold land and buildings would be insignificant. The last valuation was done as at 31 December 2022 by Gimco Limited, registered and independent valuers (i.e. not related to the Group). Gimco Limited are members of the Institute of Surveyors of Kenya and they have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in the various locations in Kenya.

The fair value of land was determined by reference to market evidence of recent transactions for similar properties. The fair value of the building was based on the cost approach. Under this approach, the fair value is estimated at the cost of erecting a building adjusted to take into account the physical state of the actual structure.

Details of the Group's freehold land and buildings and information about fair value hierarchy as at 31 December 2022 are as follows:

| | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Fair value As at 31 December Shs'000 |
|---|---|---|---|---|
| **31 December 2022** | | | | |
| Land | - | 375,000 | - | 375,000 |
| Building | - | - | 65,624 | 65,624 |
| **31 December 2021** | | | | |
| Land | - | 370,000 | - | 370,000 |
| Building | - | - | 65,624 | 65,624 |

There were no transfers between level 1 and level 2 during the year 2022



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## 21. INTANGIBLE ASSETS – COMPUTER SOFTWARE

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **COST** | | | | |
| At 1 January | 1,355,961 | 1,354,822 | 1,347,639 | 1,347,639 |
| Additions | 55,192 | 1,139 | 55,192 | - |
| WIP Transfer | 43,511 | - | 43,511 | - |
| At 31 December | **1,454,664** | **1,355,961** | **1,446,342** | **1,347,639** |
| **AMORTISATION** | | | | |
| At 1 January | 806,204 | 724,196 | 803,195 | 723,644 |
| Charge for the year | 76,665 | 82,008 | 73,891 | 79,551 |
| Eliminated on write off | - | - | - | - |
| At 31 December | **882,869** | **806,204** | **877,086** | **803,195** |
| **NET BOOK VALUE** | | | | |
| At 31 December | **571,795** | **549,757** | **569,256** | **544,444** |

## 22. RIGHT-OF-USE ASSET

The Group leases office space for its use. Information about the leases in which the Group is a lessee is presented below:

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| **COST** | | |
| At 1 January | 938,642 | 607,010 |
| Additions | 93,704 | 360,306 |
| Lease terminations | (92,551) | (28,674) |
| At 31 December | 939,795 | 938,642 |
| **ACCUMULATED DEPRECIATION** | | |
| At 1 January | 457,686 | 265,336 |
| Charge for the year | 206,245 | 200,328 |
| Eliminated on lease terminations | (58,421) | (7,978) |
| At 31 December | 605,510 | 457,686 |
| **NET BOOK VALUE** | **334,285** | **480,956** |
| **Amounts recognised in profit or loss** | | |
| Depreciation expense on right-of-use assets | 206,245 | 200,328 |
| Interest expense on lease liabilities | 58,915 | 56,343 |
| Gain / (loss) on termination of leases | 6,531 | 7,978 |
| | **271,691** | **264,649** |

The Group was not committed to any arrangements that are short term as at year-end. All of the property leases in which the Group is the lessee contain only fixed payments.

The total cash outflow for leases amounted to Shs 204,858,507 (2021: Shs 215,981,016). There are no restrictions or covenants imposed by lessors and the Group did not enter into any sale and leaseback transactions during the year (2021: Nil).



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022

### 23. CASH COLLATERALS HELD

Cash collaterals represent payments made by loanees as security for loans taken. In accordance with the loan agreements, the amounts are refundable upon the successful repayment of loans by loanees and at the time a loanee leaves the loan scheme. The amounts are utilised to cover loans in the event of default. Cash collateral balances do not earn interest.

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| 0 - 30 days | 366,510 | 401,702 |
| 31 - 90 days | 21,679 | 19,520 |
| 91 - 180 days | 3,674 | 8,903 |
| Over 180 days | 1,164 | 19,871 |
| | **393,027** | **449,996** |

### 24. CUSTOMER DEPOSITS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Savings account | 2,743,473 | 2,762,825 | 2,743,473 | 2,762,825 |
| Fixed account | 12,998,633 | 18,234,589 | 13,113,018 | 18,311,472 |
| | **15,742,106** | **20,997,414** | **15,856,491** | **21,074,297** |

The effective interest rate on customer deposits as at 31 December 2022 is 10.4% p.a (2021: 10.3% p.a).

### 25. BORROWINGS

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Loans: | | |
| Symbiotics SA | - | - |
| Oiko Credit (i) | - | 154,700 |
| IFAD (ii) | - | 40,100 |
| Absa Bank Kenya PLC (iii) | 765,338 | 97,339 |
| Stanbic Bank Kenya Limited | 100,000 | - |
| Old Mutual Holding Limited (iv) | 400,000 | 400,000 |
| | **1,265,338** | **692,139** |
| **The borrowings are repayable as follows:** | | |
| Within 1 year | 865,338 | 252,039 |
| After 1 year within 3 years | - | 40,100 |
| Over 5 Years | 400,000 | 400,000 |
| | **1,265,338** | **692,139** |

The principal features of the Group's other facilities are summarized below:

i) Oiko Credit

The Oiko Credit unsecured term loan facility is subject to interest charged at the prevailing 91 days treasury bill rate plus a margin of 2.00%. The minimum rate is pegged at 10.00%. Interest on the facility is payable on a quarterly basis with annual repayment of the principal balances. The facility matured in November 2022.



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**25. BORROWINGS(continued)**

ii) International Fund for Agricultural Development (IFAD)

The International Fund for Agricultural Development (IFAD) facility was granted by the Government of Kenya through the Profit Fund in February 2012. It is aimed at promoting financial deepening in rural financial sector by availing access to credit for agricultural related projects. The term of the loan is 10 years with a four-year grace period with interest charged at a rate of 5% on a reducing balance basis. The facility is unsecured. The facility matured in July 2022

iii) Absa Bank Kenya PLC

Absa Bank Kenya PLC facilities of Shs 250 million with interest pegged to the Central Bank Rate (CBR) plus a margin of 2.75% repayable monthly for a term of 36 months. The facility is secured by government securities as disclosed in note 16. In addition the working capital line of Shs 1 billion with interest rate pegged on Absa Bank Rate (ABR) plus a margin of 2.00% closed the year at a rate of 11.50%

iv) Old Mutual(EA) Holding Limited

The subordinated debt Shs 400 million facility with interest rate of 16.07% repayable in 5 years is subject to 3 months average interest charged at the prevailing 91 days treasury bill rate plus a margin of 7.5%. Interest on the facility is payable on a quarterly basis with annual repayment of the principal balances to commence after 5 years. The facility is due to mature on 31 March 2028.

Breach of covenants

Faulu Microfinance Bank Limited has existing covenants with its lenders which requires the Group to maintain certain minimum and maximum ratios. The covenants breaches during the year were mitigated through temporal waivers granted by all the lenders with outstanding exposures at year end and therefore no breaches existed as at 31 December 2022. The table below summarises the breach.

| Lender | Covenant | Required Limit at each year end | Banks ratio at 31 Dec 2022 |
|---|---|---|---|
| Stanbic Bank | PAR* >90 Days | <=20% | 23.17% |
| Absa Bank | PAR* >90 Days | **<=12%** | **23.17%** |

The Group engaged the lenders of the affected facilities communicating the key actions and initiatives being pursued to improve portfolio quality including growth of loan book and aggressive collection and recoveries initiatives .

## 26. OTHER LIABILITIES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Accrued expenses | 525 | 177,766 | - | 176,890 |
| Staff leave provision | 32,195 | 26,569 | 32,195 | 26,569 |
| Bonus provision | 8,916 | 8,916 | 8,916 | 8,916 |
| Sundry liabilities | 1,125,527 | 1,171,523 | 1,106,052 | 1,168,285 |
| | **1,167,163** | **1,384,774** | **1,147,163** | **1,380,660** |

## 27. LEASE LIABILITIES

The movement in lease liabilities during the year is as follows:

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| At 1 January 2022 | 594,261 | 422,267 |
| Additions | 93,704 | 360,306 |
| Leases terminated | (40,661) | (28,674) |
| Interest on lease liabilities | 58,915 | 56,343 |
| Payment of lease liabilities | (228,606) | (215,981) |
| At 31 December 2022 | **477,613** | **594,261** |



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# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2022

**27. LEASE LIABILITY(continued)**

The maturity analysis of the undiscounted lease payments is as summarized below:

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Year 1 | 221,187 | 384,190 |
| Year 2 | 148,884 | 224,479 |
| Year 3 | 118,288 | 127,651 |
| Year 4 | 66,107 | 30,826 |
| Year 5 | 30,815 | 6,309 |
| Onwards | 13,696 | 1,085 |
| | 598,977 | 774,540 |
| Reconciliation to the carrying amount: | | |
| Total undiscounted cashflows | 598,977 | 774,540 |
| Deferred interest expense relating to future period not incurred | (121,364) | (180,279) |
| | **477,613** | **594,261** |

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the group's treasury function. The lease significantly involve branch office spaces.

## 28. SHARE CAPITAL AND PREMIUM

**a) Share capital**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Authorised: | | | | |
| 65,999,600 (2021: 65,999,600) ordinary shares of Shs 10 each | 659,996 | 659,996 | 659,996 | 659,996 |
| issued and fully paid: | | | | |
| 65,999,600 (2021: 65,999,600) ordinary shares of Shs 10 each | **659,996** | **659,996** | **659,996** | **659,996** |

There was no additional capital injection in 2022.

**b) Share premium**

There was no change in share premium during the year.



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## 29. NOTES TO THE STATEMENT OF CASH FLOWS

### a) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Profit/(Loss) before tax | 15,085 | (489,796) | (13,903) | (521,656) |
| Adjustment for: | | | | |
| Depreciation on property and equipment | 129,446 | 137,002 | 129,403 | 136,949 |
| Depreciation on right of use assets | 206,245 | 200,328 | 206,245 | 200,328 |
| Amortisation of intangible assets | 76,665 | 82,009 | 73,891 | 79,551 |
| Write off of ATM Machines | - | - | - | - |
| Write off of intangible assets | - | - | - | - |
| Loss/(gain) on disposal of a property and equipment | 56,388 | 176 | 56,388 | 176 |
| Share of associate company's profit | (2,699) | (3,174) | (2,699) | (3,174) |
| Interest on lease liability | 58,915 | 56,343 | 58,915 | 56,343 |
| (Gain) / loss on termination of leases | (6,531) | (7,978) | (6,531) | (7,978) |
| Loan loss provisions | (210,018) | 197,578 | (210,018) | 197,578 |
| Revaluation gain | 4,750 | - | 4,750 | - |
| | **328,246** | **172,488** | **296,441** | **138,117** |
| Working capital changes: | | | | |
| Increase in loans to customers | (675,847) | (2,168,924) | (675,847) | (2,168,924) |
| Net movement in related party balances | 291,761 | 7,759 | 289,221 | 1,107 |
| Increase in other assets | (64,145) | 564,380 | (62,654) | 562,238 |
| Decrease in cash collaterals held | (56,969) | (28,037) | (56,969) | (28,037) |
| (Decrease)/increase in customer deposits | (3,984,375) | 674,243 | (3,984,375) | 684,687 |
| Increase in other liabilities | (123,907) | 418,294 | (139,793) | 411,870 |
| Decrease/(increase) in cash reserve ratio-CBK | 132,672 | 360,775 | 132,672 | 360,775 |
| Decrease / increase in government securities | (347,906) | (714,351) | (349,186) | (703,068) |
| | **(4,500,470)** | **(713,373)** | **(4,550,490)** | **(741,235)** |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022

### b) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Local currency cash | 352,551 | 388,285 | 352,551 | 388,285 |
| Balances due from banks and financial institutions | 430,610 | 354,008 | 430,610 | 354,008 |
| Short term deposits with banks (note 13) | - | 1,238,219 | - | 1,238,219 |
| Treasury bills | 400,000 | 1,522,146 | 400,000 | 1,522,146 |
| | **1,183,161** | **3,502,658** | **1,183,161** | **3,502,658** |

### c) MOVEMENT IN BORROWINGS

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| At 1 January | 692,139 | 2,017,292 |
| Received in the year | 1,100,000 | 525,000 |
| Paid in the year | (526,801) | (1,850,153) |
| **At 31 December** | **1,265,338** | **692,139** |

## 30. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Old Mutual (EA) Holdings Limited is the immediate parent of Faulu Microfinance Bank Limited. Ultimate parent is Old Mutual Limited. Old Mutual Life Assurance Kenya Limited ("Old Mutual Life Assurance Kenya"), Old Mutual Investment Group, Old Mutual General Insurance Kenya Limited ("Old Mutual GI Kenya Limited")are fellow subsidiaries of the Bank whereas Old Mutual Life Assurance Limited South Africa ("Old Mutual Life Assurance (SA)") is the subsidiary of the ultimate parent company.

Old Mutual (EA) Holdings Limited, Faulu Kenya Trust and Food for the Hungry Association (FH) are shareholders in Faulu Microfinance Bank Limited.

Faulu Advisory Services Limited which controls Faulu Kenya Trust is an associate of the Bank.

### (a) Due from related parties

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Faulu Bancassurance Intermediary Limited | | | 7,520 | 4,980 |
| Old Mutual Life Assurance Limited Kenya | 367 | 27 | 367 | 27 |
| Old Mutual Investment Group | 27 | 27 | 27 | 27 |
| Old Mutual General Insurance Kenya Limited | 525 | 203 | 524 | 203 |
| Old Mutual Life Assurance(SA) | 135 | 260 | 135 | 260 |
| | 1,054 | 517 | 8,573 | 5,497 |



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**30. RELATED PARTY TRANSACTIONS (Continued)**

**(b) Due to related parties**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Old Mutual Holdings Plc | (107,902) | (11,921) | (107,902) | (11,921) |
| Faulu Bancassurance Intermediary Limited | | | | |
| Old Mutual Life Assurance Kenya Limited | | | | |
| Old Mutual Africa Holdings | (21,307) | | (21,307) | |
| Old Mutual Life Assurance Limited(SA) | (200,891) | (25,881) | (200,891) | (25,881) |
| | **(330,100)** | **(37,802)** | **(330,100)** | **(37,802)** |

Deposits are made in the Group by directors and companies associated to directors. Advances to customers at 31 December 2022 include advances and loans to Directors and staff as indicated below:

**(c) Loans to customers**

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| - Directors | 17,899 | 19,615 |
| - Staff | 249,562 | 309,184 |
| | **267,461** | **328,799** |

**(d) Interest income**

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| - Directors | 1,093 | 1,228 |
| - Staff | 15,235 | 17,832 |
| | **16,328** | **19,060** |

**(e) Customer deposits:**

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| - Directors | 92,956 | 104,664 |
| - Staff | 46,034 | 40,551 |
| | **138,990** | **145,215** |

**(f) Interest expense**

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| - Directors | 10,612 | 10,295 |
| - Staff | 2,246 | 1,848 |
| | 12,858 | 12,143 |

**(g) Related party transactions**

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Group recharges from Old Mutual (EA) Holdings Limited | 107,902 | 126,175 |



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2022
### 30. RELATED PARTY TRANSACTIONS (Continued)

**(h) Borrowings from related parties**

Borrowings from Old Mutual(EA) Holding Limited is disclosed in note 25 (c). Total interest expense paid amounted to Shs 60,620,812 (2021: Shs 97,653,000).

Payments in relation to subordinated loan facility will be made up of all interest accrued and principal amount which is repayable on the maturity date or on such an earlier date to be agreed in writing by the parties provided that such an earlier date shall be at least five years after the utilization date. The facility is unsecured.

**Key management compensation**

The remuneration of directors and other members of key management during the year were as follows:

| | GROUP AND BANK | |
|---|---|---|
| | 2022 | 2021 |
| | Shs '000 | Shs '000 |
| Salaries and wages | 155,729 | 311,980 |
| Pension and terminal benefits | 29,665 | 35,873 |
| Directors' remuneration | | |
| Fees for services as directors | 16,281 | 14,562 |

## 31. CONTINGENT LIABILITIES

The Group is a defendant in various legal suits with an estimated liability of Shs 61.5 million (2021 - Shs 57.4 million). In the opinion of the Directors, after obtaining appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

Suit has been filed by the Chargor against the Plaintiff. He alleges that he did not guarantee the present facility, neither did he surrender his title to the Group to secure the loan. He contends that the signature on the charge instrument is not his. His wife equally contends that the signature on the spousal consent is not hers. The amount claimed is Shs.31million. No provision has been made in the financial statement in respect of this claim.

Suit has been filed by a customer against the Group. The claim is for general damages for financial defamation and CRB listing amounting to Shs.15 million. She claims special damages for breach of the Group's fiduciary duty of care, and loss of business opportunities owing to her inability to access financial accommodation in other financial institutions.

Suit has been filed by the Customer against the Group for a claim of Shs 3.5 million fraudulently registering a charge instrument without the Chargor's consent. In her pleadings, she detailed how the 3rd party Chargor, his grandson deceived him into executing the charge instruments by misrepresenting the purpose of the said charge. Judgment was rendered against the defendants (to include the Group) and titles released to plaintiff. No provision has been made in the financial statement in respect of this claim.

Suit has been filed against the Group seeking a declaration that the Group has breached his right as a chargor for failing to release the discharge of charge instrument together with his title deed upon completion of the loan. He is claiming damages for lost business, breach of the contractual agreement and general damages for negligence on the part of the Group amounting to Shs.2 million. The claim is unlikely to succeed as the Customer has not annexed any proof of loss of business. No provision has been made in the financial statement in respect of this claim.

Suit has been filed against the Group alleging that the Group was in contempt of court when it proceeded to realize a security with injunctive orders in place. No provision has been made in the financial statement in respect of this claim as the claim is unlikely to succeed.

There are others various customer related suits with an aggregated amount of Shs 5.9 million.

## 32. CAPITAL COMMITMENTS

The Group had commitments worth Shs 47 million against information technology transformations including Digi solution, internet banking and host to host.. (2021: Shs 56 million, server upgrade project).

## 33. SHAREHOLDING STRUCTURE

The shareholding structure is analysed as follows:



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| | No of Shares | % of Holding |
|---|---|---|
| Old Mutual Holdings Limited | 50,159,626 | 76% |
| Micsha Capital Limited | 3,840,000 | 6% |
| Food for the Hungry Association | 4,800,000 | 7% |
| The Faulu Kenya Trust | 7,200,000 | 11% |
| | 65,999,626 | 100% |

## 35. OPERATING SEGMENTS INFORMATION

The entity's business is not organised on the basis of differences in related products and services or differences in geographical areas of operation.

## 36. ULTIMATE AND IMMEDIATE HOLDING COMPANY

The immediate holding and parent company is Old Mutual(EA) Holdings Limited, a company incorporated and domiciled in Kenya under the Companies Act, 2015. The ultimate holding company is Old Mutual PLC which is incorporated in South Africa.

## 39. EVENTS AFTER REPORTING PERIOD

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure in these financial statements.

## 39. CURRENCY

These financial statements are presented in Kenya Shillings thousands (Shs'000) which is the functional currency of the Group.

## 40. COMPARATIVES

Comparatives reclassifications in this context are in relation to changes in presentation of previously issued financial statements where applicable.

## 41. GENERAL INFORMATION

Faulu Microfinance Bank Limited (the "Bank") and its subsidiary are companies domiciled and operating in Kenya and incorporated in Kenya under the Companies Act, 2015. The registered address of the Bank is shown on page 2 whereas the principal activities of both the Bank and its subsidiaries are disclosed in the Report of the Directors.



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This product is underwritten by OLD Mutual

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| | |
|---|---|
| **PLAN** | for your child's education (high school & college/university) through the **Elimika Education Plan** |
| **GROW** | your savings and future income with the **Hakika Savings Plan** and enjoy high returns |
| **PROTECT** | your income with our **Critical Illness Cover** to caution you and your loved ones in case of a critical ailment diagnosis |

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Faulu

A MEMBER OF THE OLDMUTUAL GROUP

# Annual Report 2022

For the year ended December 31, 2022


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