



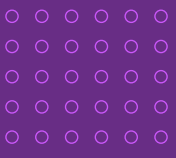
ANNUAL
REPORT
2020



FAULU GOES DIGITAL



A MEMBER OF THE  OLDMUTUAL GROUP

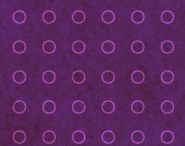




A MEMBER OF THE  OLDMUTUAL GROUP

Reports and Financial Statements

for the year ended
31 December 2020



WE ARE EVOLVING TO

Faulu goes **digital**

Table of Content

Corporate Information	13
Board of Directors	14
Senior Management	20
Chairman's Statement	30
Managing Director's Statement	36
Sustainability Review	42
Corporate Social Responsibilities	48
Report of the Directors	63
Corporate Governance Statement	68
Statement of Directors' Responsibilities	77
Independent Auditor's Report	78
Statement of Profit or Loss and other Comprehensive Income	81
Statement of Financial Position	82
Statement of Changes in Equity	86
Statement of Cash Flows	88
Notes to the Financial Statements	90



MEET YOU WHERE YOU ARE



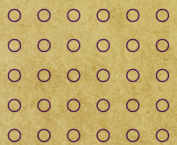
Mission & *Values*



Vision

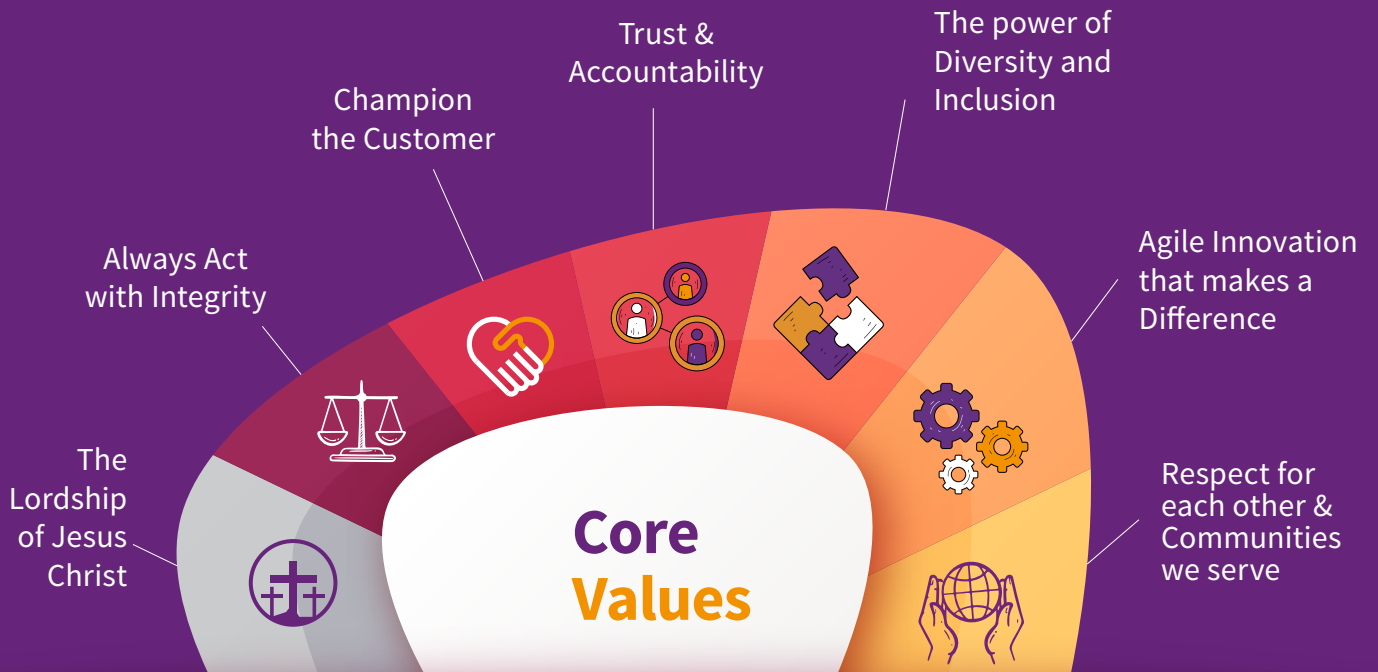
To be our customers' most trusted lifetime partner, passionate about helping them achieve their financial goals.

And, by helping generations achieve those goals, help build the financial prosperity of the societies, businesses and shareholders we engage with.

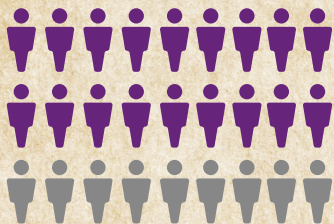


Faulu Purpose

Transforming lives and enabling financial goals by keeping our promises.



Faulu at a glance



1,254
Employees



61 banking outlets



448,250 Mobile Banking Registered Customers

630 Agents countrywide



With your Faulu Visa Card, you can transact in over

2000

VISA
ATMs countywide



Karibu!



✓ Your Money 24 Hours



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

Kitengela

9. Kakamega

Kakamega

Mumias

10. Kericho

Litein

Kericho

11. Kiambu

Thika

Kiambu

Limuru

12. Kilifi

Kilifi

Malindi

13. Kirinyaga

Mwea

14. Kisumu

Kisumu

15. Kitui

Mwingi

Kitui

16. Kwale

Ukunda

17. Laikipia

Nyahururu

Nanyuki

18. Machakos

Machakos

Matuu

19. Makueni

Emali

20. Meru

Meru

Maua

21. Migori

Migori

22. Mombasa

Changamwe

Kengeleni

Moi Avenue

23. Muranga

Muranga

24. Nairobi

Ngong Road

Kawangware

OTC

Kibera

Kimathi Street

Jeevanjee

Kariobangi

Kayole

Githurai

Gikomba

25. Nakuru

Nakuru

Naivasha

Molo

Njoro

26. Narok

Narok

27. Nyeri

Nyeri

Karatina

28. Siaya

Bondo

Ugunja

29. Transzoia

Kitale

30. Taita-Taveta

Voi

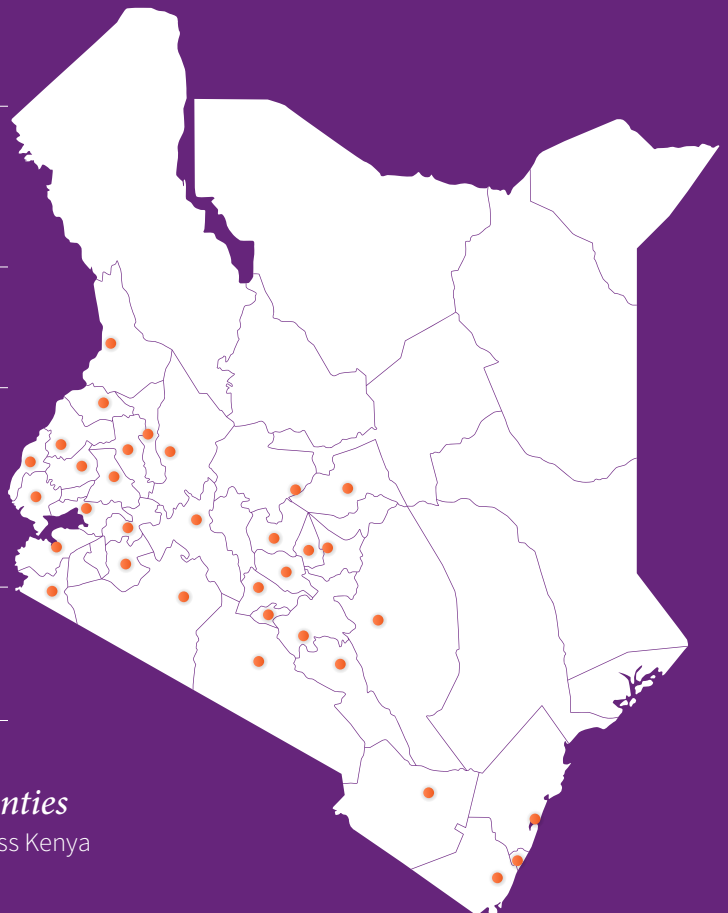
Taveta

31. Uasin Gishu

Eldoret

32. West Pokot

Kapenguria



32 counties
across Kenya

A truly mutual strategy

**STRONG
FOUNDATION**

Built on
175
YEARS
of history

Our refreshed strategy builds on a strong foundation of serving customers for more than 30 years and through Old Mutual for more than 175 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



1,254 committed employees across Kenya



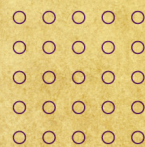
Meaningful contributor to the green economy



Agile and resilient



Driving Transformation





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



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



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



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



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



A truly mutual strategy means a connection with our customers' needs, journeys and lives.



A truly mutual strategy means our employees feel a deep sense of belonging and connection with our purpose.



A truly mutual strategy means contributing to a better society.

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.



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



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.

OUR OBJECTIVES



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.

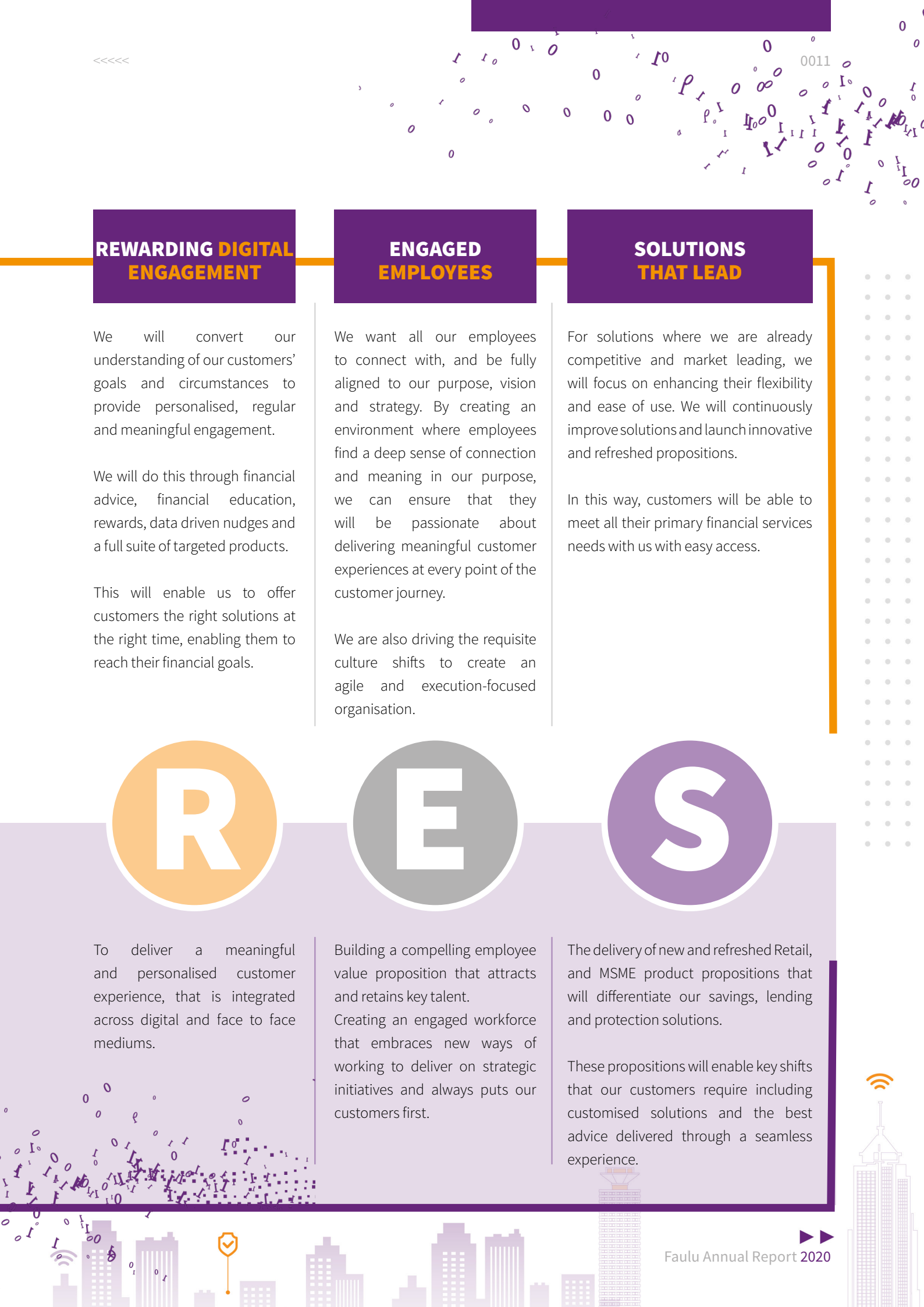


To deliver a meaningful and personalised customer experience, that is integrated across digital and face to face mediums.

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.

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.



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.

It is always our pleasure to partner with individuals and corporates to provide the following financial services:



Transactional & Savings or Deposit Accounts

- ▶ Personal Current Accounts
- ▶ Personal Savings Accounts
- ▶ Business Current Accounts



Investment Account

- ▶ Fixed Deposits Accounts
- ▶ Call Deposits Accounts
- ▶ Contractual Accounts



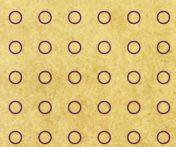
Credit Facilities

- ▶ Salary-backed loans
- ▶ SMEs & Corporate loans
- ▶ Micro loans
- ▶ Agri-business loans



Bancassurance

- ▶ **General Insurance Products**
 - Medical Insurance
 - Motor Insurance
 - SME Insurance
- ▶ **Life Insurance Products**
 - Education/Endowment policy
 - Last Expense Policy
 - Personal Accident
 - Savings



Corporate information

Board of Directors

Dr. Peter W. Muthoka	Non- Executive Chairman	Retired 31/3/2020
George A. Maina	Non- Executive Chairman	Appointed Chairman 29/4/2020
Apollo N. Njoroge	Managing Director	
Peter J Mogan*	Non- Executive Director	
Peter Gachuba	Non-Executive Director	
Sophia Mukoba	Non- Executive Director	
Peter K. Mwangi	Non- Executive Director	Resigned 14/4/2020
Dr. Catherine N. Kimura	Non- Executive Director	Retired 30/6/ 2020
Joshua Muiru	Non- Executive Director	Retired 30/9/2020
Andre Keller**	Non- Executive Director	Resigned 15/12/2020

*Canadian **South African

Audit Committee

Sophia Mukoba
Peter Mogan
Joshua Muiru

Technology and Innovations Committee

George Maina
Peter Gachuba
Joshua Muiru
Apollo Njoroge

Risk and Compliance Committee

George Maina
Joshua Muiru
Peter K. Mwangi
Sophia Mukoba
Peter Gachuba

Remuneration and Nominations Committee

Dr. Peter W. Muthoka
Peter K. Mwangi
George Maina
Sophia Mukoba
Apollo N. Njoroge
Arthur Oginga***

Credit Committee

Peter Gachuba
Dr. Catherine Kimura
Andre Keller

Registered office

Ngong Lane
Off Ngong Road
P O Box 60240-00200
Nairobi, Kenya

Auditors

Deloitte & Touche
Certified Public
Accountants (Kenya)
Deloitte Place,
Waiyaki Way Muthangari
P O Box 40092- 00100
Nairobi, Kenya

***Co-opted

Principal Lawyers

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

Company Secretary

Nkirote K. Mworira
UAP Old Mutual Towers
Upperhill Road
P.O. Box 43013 - 00100
Nairobi, Kenya

Principal Banker

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

Board of Directors



WE ARE



» George A.
Maina
Chairman

» Apollo N.
Njoroge
Managing Director

» Peter J.
Mogan



» Peter N. Gachuba

» Sophia A. Mukoba

» Andre W. Keller



George A. Maina
Chairman

George began his career in aeronautical engineering and went on to serve in the capacity of deputy Managing Director and Marketing Manager for the Shell Company in Jamaica, Ghana and East Africa markets.

Through his experience, George gained expertise in various sectors including: Strategy development and Implementation, Governance, Organization Development / Re-engineering and Capacity Building, Change Management, Risk Management, Finance and Investment Management, Mergers, Acquisitions and Exits as well as Investment Banking.

He joined the Faulu Board in 2003 and has been instrumental in leading the restructuring and divestiture of the bank.

George is currently a Director at UAP Old Mutual Holdings Limited.

Date of Appointment:
2003

Date of Appointment as Chairman: 29 April 2020



Apollo N. Njoroge
Managing Director

Apollo is an experienced financial executive with over 28 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.

Prior to his appointment, he was the Ag. 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.

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 ten (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.

He is currently the vice chairperson of the Association of Microfinance Institutions in Kenya (AMFI-K).

Date of Appointment:
19 December 2016



Peter J. Mogan
Non Executive Director

Peter has been an active lawyer, businessman and mediator in British Columbia and Ontario with a career spanning over 37 years.

He is highly skilled in mergers and acquisitions, contract negotiations, international trade, dealings with government, tax planning and securities compliance for both publicly listed and private companies.

Peter also has extensive experience in facilitating Leadership Development, Strategic Planning, Conflict Management and Community Building Workshops for Business, Government and Not-for-profit Organizations in six continents.

He currently serves as a Director and Corporate Secretary to the Boards of several British Columbia 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.

Date of Appointment:
4 July 2014



Comnr. Peter N. Gachuba
Non Executive Director

Peter is an investment banker with many years of business experience. He has worked in Commercial banking, Investment banking and Private Equity for nearly 20 years.

He has served in the Board of Equity Bank and other Microfinance Banks outside Kenya such as Opportunity Bank in Malawi, Socremo in Mozambique, Pride in Uganda and Pride in Tanzania.

Earlier in his career, he was a Corporate Finance Manager at KPMG, Investment Officer at CDC Capital, General Manager of Kestrel Capital, Head of Investment & Merchant Banking in Cooperative Bank and also worked as a Consultant for the World Bank in Nairobi.

He is currently a Commissioner in the Commission of Revenue Allocation in Kenya.

Date of Appointment:
16 March 2015



Sophia A. Mukoba
Non Executive Director

Sophia 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. Her expertise in financial and audit matters are of great value to the Faulu Board.

Date of Appointment: 14 February 2018



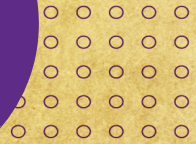
Andre W. Keller
Non Executive Director

Andre is a Chartered Accountant and has more than 18 years' experience in Finance, Treasury and Risk Management across South Africa, UK and Africa which he gained from the Old Mutual Group, Royal Bank of Scotland, Dexia Bank, UK and the accounting profession in South Africa. He has a track record of delivering Insightful analysis that influence strategic decision making.

Andre has previously worked as: the Head of Banking Rest of Africa and the CFO Banking Cluster for Old Mutual South Africa, Head of Planning and Management, Executive Decision Support Manager and Business Intelligence Manager for the Royal Bank of Scotland in UK, Finance and Market Risk Manager for Dexia Bank Belgium, UK and IFRS Accountant for Dexia Banque Internationale Luxembourg, UK.

Andre is a Member South African Institute of Chartered Accountants.

Date of Appointment: 7th May 2019



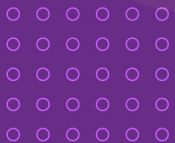


Faulu 

A MEMBER OF THE  **OLDMUTUAL** GROUP



WE ARE





CHANGING



TO DELIVER
BETTER RESULTS ▶▶

Senior Management

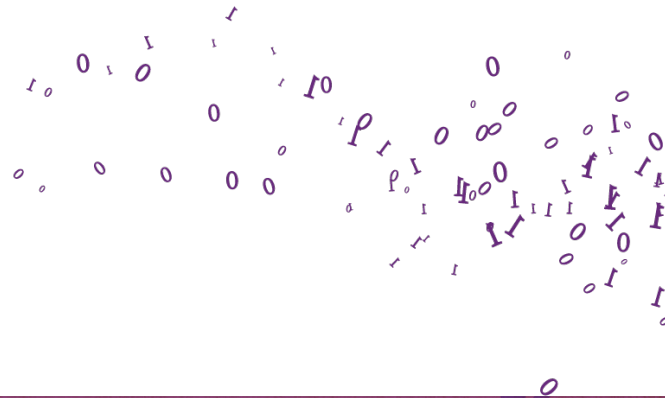


WE ARE

STRO



Senior Management Team



Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results.

- Andrew Carnegie



01



02



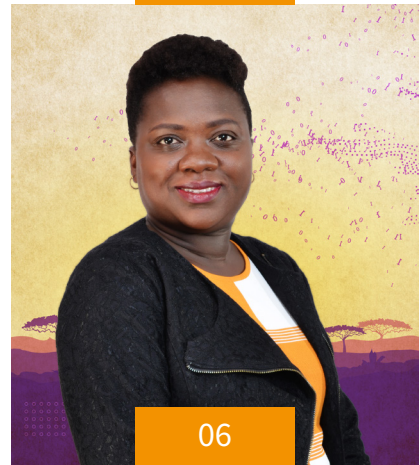
03



04



05



06



Coming together is a beginning. Keeping together is progress. Working together is success.
- Henry Ford

Who we are

01 Apollo Njoroge
Managing Director

02 Julius Taliani
Head of Finance & Strategy

03 Grace Thiong'o
Head of Risk & Compliance

04 Nahashon Ojode
Head of Credit

05 Paul Kahoro
Head of Audit

06 Maureen Mbori
Head of Treasury

07 Rose Kimani
Head of Retail Banking and Bancassurance

08 Peter Iha
Head of Human Capital

09 Michael Mutisya Kalii
Head of Operations and Customer Experience

10 Sheila W. Maina
Head of Legal Services

11 Fridah Mutua
Head of Marketing





Apollo N. Njoroge
Managing Director

Apollo is an experienced financial executive with over 28 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.

Prior to his appointment, he was the Ag. 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.

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 ten (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.

He is currently the vice chairperson of the Association of Microfinance Institutions in Kenya (AMFI-K).



Julius Taliani
Head of Finance & Strategy

Julius joined Faulu in October 2016 as the Head of Finance. He was later appointed as Head of Finance and Strategy in May 2017. He has worked for over 15 years specializing in Finance and Accounting in the Banking and Insurance sectors.

Prior to joining Faulu, he was the Chief Finance Officer at Invesco Assurance Co. Ltd. He also previously worked with Old Mutual Kenya as the Finance Manager-Operations and with KCB (Sudan) Ltd. as the Finance & Administration Manager.

Julius is widely experienced in strategic planning, business systems re-engineering, process restructuring for operational efficiency, cost management and risk & compliance monitoring.

He also has an outstanding track record in coaching and developing high performance cross-functional teams.

He has an MBA (Finance) and a B.Com (Accounting) both from the University of Nairobi and is a qualified Certified Public Accountant, CPA (K). He holds memberships with the Institute of Certified Public Accountants (I.C.P.A.K) and the Kenya Institute of Bankers (K.I.B).

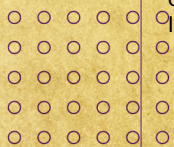


Grace Thiong'o
Head of Risk & Compliance

Grace has over 15 years Risk management, Compliance management and Audit experience. She joined Faulu Bank in January 2017 as Head of Risk and Compliance.

She is a Certified Public Accountant of Kenya, a Certified Internal Auditor (CIA) and a Member of the Institute of Internal Auditors in Australia (MIIA) with an MBA from the Melbourne Business School, a Risk Certification from the Harvard Business School (HBS) and Bachelor of Commerce (Hons) from the University of Nairobi. She is also a scholarship recipient for the Women in Leadership Program at the Melbourne Business School (MBS).

Grace has held several management roles including in Group Audit, Risk & Compliance Management and Assurance at Australia New Zealand (ANZ) Banking Group reviewing the Bank's business and operations across Australia, New Zealand and South East Asia. Before joining the Australia New Zealand (ANZ) Banking Group, she worked at Deloitte in Nairobi and Melbourne.





Nahashon Ojode
Head of Credit

Nahashon career as a banker, spans over 19 years. He has worked in a cross-section of institutions in Kenya and in the wider East African region.

He was the General Manager Credit, Equity Bank Rwanda Limited, where he successfully supported the setting up of the subsidiary. He previously held the following positions at Equity Bank in Kenya; Credit Manager, and Credit Risk Manager before his appointment as the Head of Credit, Equity Bank Southern Sudan. Nahashon has also worked at Family Bank and Standard Chartered Bank in various capacities where he grew from a junior position to management level.

He has valuable experience in retail, micro, small and medium Enterprises Banking covering lending, relationship management and product development.

Nahashon is pursuing a PhD in Business administration at Kenyatta University, holds a Msc. degree in Entrepreneurship Development from Kenyatta University and a Bsc. degree from Moi University besides credit, leadership and strategy courses.



Paul Kahoro
Head of Audit

Paul joined Faulu Microfinance Bank in July 2006 as an Internal Audit Officer and grew through the ranks after serving in various capacities within the Internal Audit function. Prior to being appointed the Head of Internal Audit in 2012, Paul held various leadership positions including Senior Auditor, Information's Systems, Audit Manager and Senior Audit Manager.

Mr Kahoro has a wealth of experience in Audit having started his career at PKF Audit Firm where he had exposure in auditing clients in different sectors of the economy including Banking, Service, Manufacturing and Retail.

After joining Faulu, Paul also played a big role in the transformation of the bank from Credit only to a Deposit Taking Microfinance having been seconded to a transformation team which dealt with process and system transformation. His audit experience spreads across the organization value chain which include credit, banking operations, Information Technology, Finance, and HR.

Paul is a Certified Public Accountant CPA (K) and member of ICPAK. He is a Certified Information Systems Auditor (CISA), Certified Internal Auditor and holds bachelor's degree in Agribusiness Management.



Maureen Mbori
Head of Treasury

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.

She 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 also 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.





Rose Kimani

Head of Retail Banking and Bancassurance

Rose 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, Manager Business Development, Senior Business Development Manager, 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.

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



Peter Iha

Head of Human Capital

Peter joined Faulu in November 2012 as Human Resource Manager, Branch Relations. He was promoted to Senior Manager Human Resource Business Relationship and is currently the Head of Human Capital at Faulu Microfinance Bank.

Peter is widely experienced in Human Resource Management and has 25 years' experience in the Banking Industry. Prior to joining Faulu, he was the Relationship Manager Retail at Co-operative bank.

He has spearheaded culture transformation in the bank through the successful implementation of training programs. Peter has also supported the leadership team in enforcing a high-performance culture in the organization which has resulted to a cohesive and high-performing team in the bank leading to an improvement in overall organizational effectiveness.

Peter has a master's degree in Human Resource Management, an MBA in Strategic Management, Bachelor of Commerce Accounting and Business Administration and a Diploma in Leadership Coaching.



Michael Mutisya Kalii

Head of Operations and Customer Experience

Michael Mutisya Kalii Joined Faulu Microfinance Bank in 2016 as Head of Operations. He is currently in charge of the Banks Operations and Customer Experience.

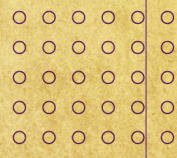
Michael has over 20 years working experience in Operations, Business and Transformation of payment solutions.

He previously worked at K-rep Bank (now Sidian Bank) and was in charge of different departments namely; Head of Business Development and Head of Operations and IT.

He is a seasoned banker and has a wealth of experience in micro-finance operations.

Mr. Kalii currently serves as a Member of the Senior Management Committee in Faulu, he is the Chairman of Matasia Parish, he serves in the Board Management of several schools and has previously served as Chair-K-rep Group provident Fund.

He holds a Bachelor's degree in Mathematics, a Diploma in Information System Management (IMIS) and a Master's in Business Administration (Operations Management) and lastly a Certificate in Trade Finance operations.





Sheila W. Maina
Head of Legal Services



Fridah Mutua
Head of Marketing

Sheila joined Faulu in 2015 as a Legal Officer, she was later appointed the Legal Manager in 2017 and is currently the Head of Legal. She has the overall responsibility for the Bank's Legal Services and Legal Risk Management which includes legal advisory, company secretarial and corporate governance support, legal & regulatory compliance, securitization, litigation and contract portfolio management and operational support.

A seasoned legal practitioner and highly experienced in diverse areas of law, Sheila is passionate about creating her niche as a trusted corporate legal advisor.

Prior to joining the Bank, she was an associate at MMC-ASAFO Advocates, a top tier law firm in Kenya where she represented diverse clients including Banks, Statutory Bodies, listed corporate entities and private clients.

She holds an LL.B (Hons.) from the University of Nairobi, is an Advocate of the High Court of Kenya, a Commissioner for Oaths and a member of the Legal Committee of Kenya Bankers Association. She holds certification in areas of Alternative Dispute Resolution, Business Continuity Management and Corporate Governance.

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.





A MEMBER OF THE  OLDMUTUAL GROUP

WE ARE





EVOLVING



TO BE MORE
CUSTOMER-
CENTRIC



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 the Faulu Microfinance Bank Limited (the “Bank”) 2020 Annual Report and Financial Statements for the year ended 31st December 2020. The financial statements include the consolidated financial statements of the Bank and its subsidiary (together, the “Group”).

The year 2020 was unique by nature and presented unprecedented challenges. The challenges we experienced because of Covid-19 not only had socio-economic effects locally but globally as well. We have however, showed how resilient our teams and businesses are by braving the pandemic and reinventing ourselves by quickly adjusting to the new ways of working. I would like to thank our shareholders and stakeholders made up of our customers, regulators partners and staff for their immeasurable support and devotion throughout the year to keep our business afloat and by remaining considerate to our esteemed customers during tough times. Indeed, we have proven that we are a certain friend even in uncertain times.

“

**THIS IS YET ANOTHER GREAT
YEAR FOR THE BANK, AS WE
CONTINUE ON OUR GROWTH
TRAJECTORY**

We are now stronger and wiser and are working tirelessly to ensure that the bank not only delivers its set targets but provides relevant financial solutions to its customers to achieve their financial goals.

Operating Environment

According to World Bank, the Kenyan economy is projected to have shrunk by 1.1% from the projected growth of 5.5% in 2020. The 2020 projected growth is a slight decrease from the estimated 5.7% growth experienced in 2019.

Kenya's economy has been hit hard through supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path.

Apart from the COVID-19 (coronavirus) pandemic, the locust attack which started early 2020, has affected many parts of Kenya especially the North East. It has had a negative impact on the food security and growth of the agriculture sector in the country.

5.2%
*average monthly
inflation rate*
in 2020

Inflation and Interest Rates

The inflation rate remained relatively low in 2020 with the average monthly inflation rate coming in at 5.2%. The December numbers were 5.6% up from November 5.5% and lower than the December 2019 number of 5.8%. The low inflation can be attributed to the low fuel prices experienced during the first half of the year, coupled with the favourable weather conditions experienced at the tail end of the year which has ensured that food commodity prices remained low through most of the year.

In the year, the Monetary Policy Committee lowered the Central Bank Rate (CBR), in the meetings held in January 2020 and March 2020, from 8.25% at the beginning of the year to 7%. In November the Monetary Policy Committee retained the CBR at 7%, indicating that the previous cuts were having the intended effect on the economy.

The Committee concluded that the current accommodative monetary policies together with the fiscal measures are still being transmitted and continue to support the economy.

Additionally, the Cash Reserve Ratio was reduced to 4.25%, from 5.25% in their March 2020 meeting, to inject liquidity to banks for onward lending to businesses and households that have been adversely affected by the Coronavirus pandemic.

The Kenya Shilling depreciated by 7.7% against the US Dollar to close at Kshs 109.2 in 2020, compared to Kshs. 101.3 at the end of 2019. The shilling was under pressure from increased dollar demand as people prefer holding onto hard currency during such times and a decline in dollar inflows from both exports of goods and services like tourism.

Financial Results

During the year 2020, Faulu posted pre-tax loss of Kshs. 446 million compared to a profit of Kshs. 564 million in 2019.

The major driver of this deterioration was from a decline in interest income which reduced by 5% due to Loan Book attrition resulting from low disbursements and increased provisions for bad debt by 169%.

The non-performing loans ratio deteriorated from 12.1% in December 2019 to 20.49% in December 2020. This is attributable to 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 honouring their financial obligations.

Total Bank's assets decreased by 0.17% to Kshs. 29.3 billion in December 2020 compared to Kshs. 29.4 billion in 2019. The gross loans and advances to customer decreased by 5% from Kshs. 21 billion in 2019 to Kshs. 19.9 billion in 2020. The banks customer deposit grew by 124% from Kshs. 19.7 billion to Kshs. 22.5 billion in 2020.

Developments in the Banking Sector

The year 2020 saw several legislative changes and other developments that affected the equities market and investor sentiment, namely:

Guidance on Loan Restructuring

The Central Bank of Kenya (CBK) on 27th March 2020 provided commercial banks and mortgage finance companies with guidelines on loan reclassification, provisioning of extended and restructured loans as per *the Banking Circular No 3 of 2020*. The key take-outs from the circular included:

- Central Bank of Kenya stipulated that banks would be allowed to extend loan repayments for their customers for a period not more than one year.
- The cost of restructuring and extension of loans would be met by the banks and the banks would have to report any restructuring in relation to the COVID-19 pandemic to the Central Bank of Kenya monthly.
- Banks would be required to keep a record of all restructured and extended loans with the details of how the pandemic has affected specific customers whose loans are restructured, and monitoring measures adopted by the bank.
- Personal loans that have been extended or restructured by banks would not be subjected to the classification of renegotiated loans stipulated in CBK's prudential guidelines meaning that banks would not have to classify them.

Capital Preservation

The Central Bank of Kenya on 14th August 2020, directed that banks will have to get approval before declaring dividends for the current financial year, in a bid to ensure that the banks have enough capital that will enable them to respond appropriately to the COVID-19 pandemic. The Central Bank of Kenya gave guidance to lenders asking them to revise their Internal Capital Adequacy Assessment Process (ICAAP) based on the pandemic as highlighted in the then Banking Circular No. 11 of 2020. Subject to the submission of the revised Internal Capital Adequacy Assessment Process, (ICAAP), CBK will determine if it will endorse the board's decision to pay out dividends. A similar trend has been mirrored globally by both financial and non-financial businesses frantically seeking ways to save money with several regulators encouraging companies to cease the discretionary payments of dividends to shareholders.

Mobile Money Transactions

To reduce the risk of transmission of COVID-19 through the handling of banknotes, the Central Bank of Kenya

announced emergency measures that would increase the use of mobile money transactions as opposed to cash. The measures that were put in place by CBK include;

- Free mobile money transactions for amounts up to Kshs 1,000.
- Increase in the mobile wallet limit to Kshs 300,000 while the daily transaction limit was increased to Kshs 300,000.
- Elimination of charges for transfers between mobile wallets and bank accounts for Payment Service Providers (PSP) and Commercial Banks.

Notably, the CBK announced in June 2020 that the measures put in place to facilitate mobile transactions such as the free bank-mobile money transfer and the waiver on fees on mobile transactions below Kshs 1,000 had been extended to 31st December 2020. These regulations saw the listed banking sector record a decline in their Non-Funded Income in Quarter 3, 2020, growing by a weighted average of 2.1%, slower than the 15.8% growth recorded in Quarter 3, 2019.

Unquoted Securities Platform

Following the approval granted by the Capital Markets Authority (CMA), the Nairobi Securities Exchange (NSE) launched the Unquoted Securities Platform (USP), a market infrastructure that will facilitate the trading, clearing, and settlement of securities of unlisted companies. For trading purposes, an investor will be required to open and maintain a USP securities trading account, identified by a unique trade identification code, generated by the platform. An investor shall then trade their USP securities by placing a buy or sale order through their USP securities dealer.

Consolidation

Consolidation activity remained one of the key highlights witnessed in 2020, as players in the sector were either acquired or merged, leading to the formation of relatively larger, well-capitalized and possibly more stable entities.

Industry Non-Performing Loans (NPLS)

High Non-Performing Loans remains a challenge in the industry with Portfolio at Risk (PAR) averaging at 14.1%. With trade, manufacturing, agriculture, and real estate as the major sectors contributing largely to the Non-performing Loans. The high NPLs were attributed to

the pandemic which adversely affected businesses and individuals in Kenya and limited their ability to repay loans. Banks have stepped up debt recovery efforts and improved on credit scoring.

Looking forward

Faulu's ambition is to become our customers most trusted lifetime partner, passionate about helping them achieve their financial goals. As a customer centric bank, we are keen to offer cutting edge customer experience in order to grow all the Banks Key Performance Indicators (KPIs). We will 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 focus will remain acquiring entry level customers as well as offering transformative products to retail, micro, small and medium enterprises.

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 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 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.

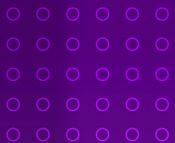


George Maina
Chairman



A MEMBER OF THE  OLDMUTUAL GROUP

WE ARE





GROWING



FROM STRENGTH
TO STRENGTH



Managing Director's Statement

Dear Shareholder,

2020 was an extraordinary year which began on a good note with high optimism from all our staff and customers as illustrated by the business performance until March when things took a turn. The Covid-19 global pandemic hit our country Kenya on 12th March, 2020 and thereafter its effects caused a countrywide recession, unprecedented government actions and change in customer behaviour to cope with the effects of the pandemic.

The domestic economy contracted in the first three quarters of 2020 following the devastating impacts of the COVID-19 pandemic which disrupted global as well as domestic economic activities. Real GDP contracted by 0.4 percent in the first three quarters of 2020 from a growth of 5.4 percent in 2019 mainly underpinned by a significant decline in the services sector.

This hurt the quality of banking sector assets, with non-performing loans increasing to 14.5% by the end of December 2020 from 12.5% in 2019, leading to higher provisioning that ate into profitability.

The lenders largely recorded decline in profits in the second and fourth quarters of the year, which the CBK attributed to income growing at a slower pace compared to expenses.

Banks took a Kshs.46 billion hit on their profits last year, hurt by a sharp rise in bad loans and costs in an economy that was battered by Covid-19 pandemic-related woes.

The pre-tax profit for the 39 lenders fell by a third to an eight-year low of Kshs.112.8 billion in 2020 according to the Central Bank of Kenya's credit survey report for the fourth quarter. This marked a significant slump from the record Kshs.159.1 billion profit the lenders posted in 2019.

Kenya's top nine listed banks raised their provision for non-performing loans by a record Kshs.77.3 billion in the year ended December 2020, cutting their combined net earnings by 25.5 percent to Kshs.81.2 billion. Through

the pandemic companies discovered what they stand for what they really were sometimes, what they might become.

As the events unfolded in the course of the year, we were keenly focused on what we, as a company, could do to serve our customers better while also upholding the safety measures as communicated by the Government and the Ministry of Health. We introduced staff to working in shifts by creating two Teams (Team A and B) to ensure a smooth business continuity in case of an infection. We also fumigated the offices from time to time and upheld higher levels of hygiene by encouraging our staff and customers to sanitize, keep social distance, wear masks at all times and wash hands regularly.

I am proud of what our company and our thousands of employees around achieved, collectively and individually. We kept our purpose of championing mutually positive futures everyday by passionately helping our customers achieve their financial goals. The zeal and enthusiasm to work.

I take this opportunity to present a review of our business performance for the year ended **31st December 2020**. In 2020 Faulu realized a mixed set of results for the year with significantly improved performance in the banks deposits and liquidity as opposed to the shrinking of the bank's loan book coupled with an increase in non-performing loans.

Financial Performance

Deposit Book

The deposit book of the bank grew by

 **Kshs. 2.7 Bn**

to close at **Kshs.22.39Bn**
from **Kshs.19.70Bn**.

Bancassurance Growth

The Faulu Bancassurance Agency recorded a profit before tax of **Kshs.29.57Mn** Compared to

 **Kshs. 29.6 Mn**

Kshs.25.95Mn in 2019.

The bank recorded a loss before tax of

 **Kshs. 446 Mn**

as compared to a profit of **Kshs.564Mn** in 2019.

Loan Book

In 2020, the loan book reduction of

▼
Kshs. **818** Mn

to close at **Kshs.20.68Bn**
compared to **Kshs.21.50Bn** in 2019.

Disbursements for 2020 were

▼
Kshs. **11.1** Bn

a drop from **Kshs.13.9Bn** in 2019.

Non-Performing Loans (NPLs)

▼
Kshs. **1.54** Mn

NPLs worsened by **Kes.1.54** Mn in 2020 to close at **Kes.4.09Bn** from **Kes. 2.55Bn** in 2019 with PAR closing 2020 at **20.49%** from **12.09%** in 2019 mainly as a result of delayed payments resulting from the effects of COVID-19 pandemic that has seen many business 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 81.1% in Dec 2020 against a plan of 70% year to date (YTD) . The bank has continued to manage lower operating expenses against plan through cost leadership. By the end of the year 2020 the bank had saved 12% of the budgeted year to date operating expenses, CIR was affected by lower Interest and non-interest Income.

People and Culture Update

In 2020 we closed on one critical hire in our leadership team filling the vacancies of Chief Information Officer in August 2020. We also welcomed a new Chair to the Board – Mr George A. Maina who has been a long-term member of Faulu Board and has over 30 years experience in leadership and business.

These hires at a leadership level are critical to the delivery of our strategy. 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 our being our customers' most trusted partner.

Business Strategies Going Forward

- The operating environment in 2020 accelerated the roll out of our digital strategy which was critical in ensuring services remotely, given the social distancing and face to face restrictions put in place to curb the pandemic spread. As part of this process, we have made additional investments in our technology infrastructure which will enable us to scale our digital offerings much faster going forward.
The bank is fast tracking the implementation of a digital platform that will enhance mobile banking and allow customers to conveniently access automated services.
- The bank's strategy is to control spillages and follow up on arrears from day one. Relationship management for clients and schemes to ensure loan instalments are paid on time.
- We will strive to achieve an optimal mix in funding, drive lower finance costs which is dependent on long term growth of current and savings accounts and cheap deposits.
- The bank looks to grow in non-funded income as the key to reducing over-reliance on interest income, deposit mobilization initiatives to support growth of the deposit book are being implemented with high focus on Current and Savings Accounts (CASA).



- Cyber Security continues to be a concern, enhancements of controls within the bank are ongoing in line with the Old Mutual Africa Cyber Security Program.
- We are also doing process re-engineering – credit processes, scoring tools, customer onboarding-customer profiling.
- Cost leaderships: Renegotiate charges on contracted services
- Pipeline of new funds put in place include term deposits. Cash flow management through interbank placements and bond trading to grow current and savings accounts.

Outlook

As the leadership of the bank, we are dedicated to improving the performance of our business together with our employees for our customers to continue deriving value in us.

We will work together with the Government and the regulatory bodies and remain agile to change in order to remain competitive in this dynamic market we operate in.

Our strategy remains focused on delivering an integrated financial service offering for our customers.

Appreciation

I wish to thank Management and staff for the resilience and hard work they put in the business in the year 2020. I appreciate the Board of Directors for their support and continuous contribution to ensuring the business is steered in the right direction. I wish to thank our intermediaries, partners, regulators and government agencies for their stewardship.

On behalf of Management and staff I sincerely thank our customers for believing in us and and journeying with us during the tough year, we really value you.

Finally, I wish to thank our shareholders for their continued support.

Thank you.



Apollo N. Njoroge
Managing Director



is humbled to be awarded
OVERALL BEST *
MICROFINANCE
BANK IN KENYA**



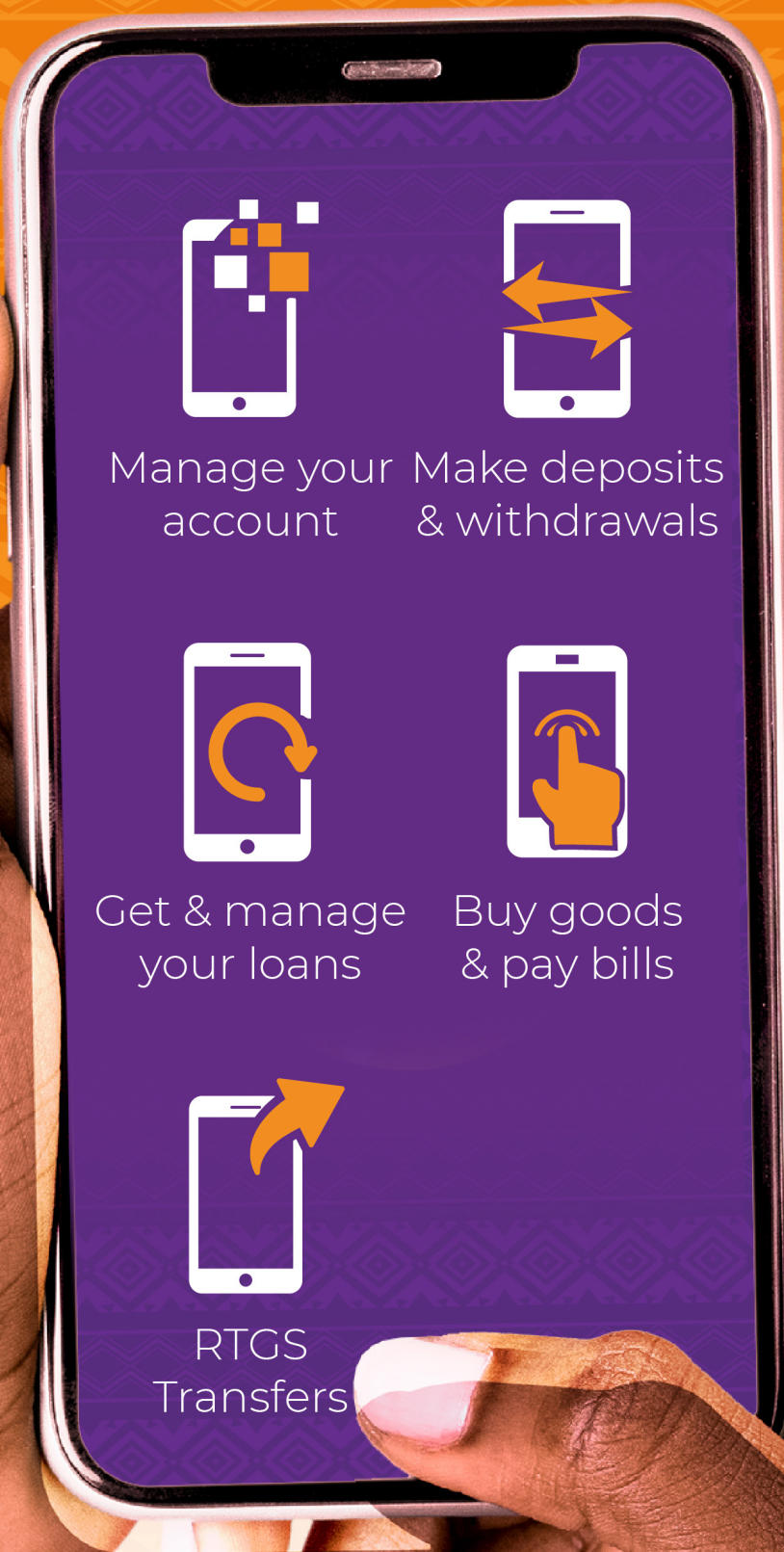
Because of your constant support, we would like to thank you all for contributing to our success in winning; **The Overall Best Microfinance Bank Award**, for the second year running.

Faulu DIGI
cash
APP

Full control at your fingertips!

To get started,
download the App today.





Manage your account Make deposits & withdrawals

Get & manage your loans Buy goods & pay bills

RTGS Transfers

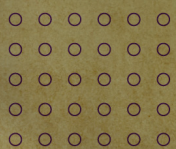
OUR SUSTAINABILITY *review*



Our sustainability agenda looks to enhance financial inclusion and help Kenyans achieve their ambitions by fulfilling their financial needs in a responsible and sustainable manner.

We enable people, businesses and society to grow progressively and sustainably in the long-term.

As a member of the Old Mutual Group and a subsidiary of UAP Old Mutual, part of our commitment to social responsibility is to actively support our company-wide global strategy.





Responsible business practices are core components of the Old Mutual Group risk management strategy which is underpinned by the Group’s four values of: Integrity, Respect, Accountability and Pushing beyond boundaries.

By managing our finances responsibly, we build trust and strong, profitable relationships. We also achieve great success by upholding responsible business.

Our sustainability approach aims to balance **Social, Economic, Environmental Risks** and **Opportunities** through the deliberate use of our products and services, collaborations and partnerships and by managing our own impact.

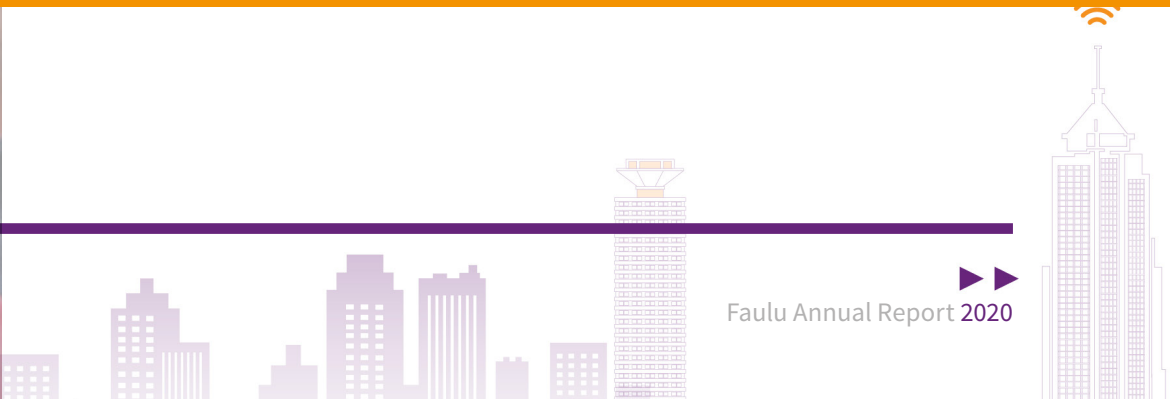


Our impact through responsible business

We leverage our position within the financial services industry to nurture an ecosystem that multiplies value for both our customers and the communities within which we operate. Our approach is to balance the urgent necessity for positive impact today with the need for sustainable solutions for the health and prosperity of future generations and for the planet.

Today, as a group we have invested more than

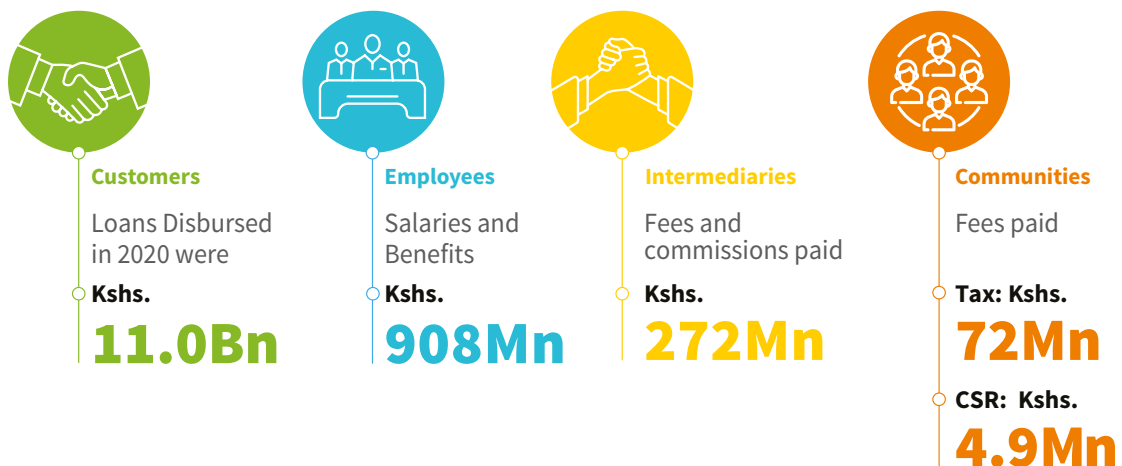
Kshs. **436M**
responsibly for positive outcomes.





» Our responsible business agenda

Our heritage of 175 years across Africa and 100 years in East Africa is a testament of our belief in creating shared value for our investors, employees, customers and the communities we operate in. This has facilitated the long-term sustainability of the Group and enhanced our competitiveness.





Our Customers

In everything we do, our customers come first. Our longstanding history and achievements have been largely supported by our customers and the relationships we have established with them over the years we have been in operation.

Treating Customers Fairly (TCF) is one of the Principles that has guided our staff in ensuring that we serve and retain our customer base with the certainty that they are happy and that we deliver our promise to them to attain their financial goals.

Even though 2020 was a challenging year, our customers have been very supportive and loyal as shown by the bank being:

- One of the largest Microfinance bank with a loan book of over Kshs. 19Billion and a deposit book of over Kshs. 22Billion
- Net promoter score (NPS) index improvement from 47% in 2019 to 51% in 2020

The declaration of COVID - 19 as a global pandemic in March 2020 saw communities and economies severely impacted. To ensure uninterrupted service to customers, banks introduced innovative solutions to support customers and enable them seamlessly to get served at the comfort of their spaces (homes / offices).

The bank made significant strides in the **digital transformation journey** to enable customers access financial services and advice on the go in order to help them plan for their individual and family's finances. The notable achievements include:

- Digital last expense (funeral expense) product that enables customers to log in remotely and apply for a last expense cover
- Our consultants communicated to our clients and assisted them to open accounts and apply for loans remotely





Our Employees



Staff engagement is key in ensuring the heartbeat of an organization is strong and reflected in our interactions with customers, vendors and shareholders. The organization invested significantly in technology to improve internal operational efficiency and deliver on the digital ambition through people capabilities.

The year 2020 saw a massive change in the way that we work and collaborate with one another. In this regard we:

- Deployed and scaled up the usage of collaboration tools, such as Microsoft Teams, allowing our staff to work securely from the comfort of their homes in response to the COVID - 19 pandemic.
- Enhanced medical cover to provide for Covid-19 testing for all employees. This allowed the organization to support employees who tested positive for Covid-19 and put in place relevant measures to hospitalize or offer home based care depending on the severity of the cases.

A series of initiatives to involve staff were undertaken as below:

- A mini pulse survey focusing on employee engagement, execution, delivery and psychological safety whose results showed an improvement in participation in the number of staff from 753 out of 1240 in 2019 to 843 out of 1245 in 2020. The overall engagement scores were higher in 2020 than in 2019.

From the survey results, employees are happy to work with the brand with improvements on our internal processes, built leadership cohesiveness and more engagements.

- Stepped up staff engagement through branch visits, town halls and engagement sessions held by departmental heads. The exercise was meant to ensure employee retention and increase employee engagement.
- A free leave day dubbed 'duvet day' was gifted to all staff working in the company in 2020 in honour of celebrating 175 years in Africa. This served as a token of appreciation for the role they play in the ongoing success of the organization. Staff took the day during their birthdays or birthday month throughout the year and this will expire on 31st May 2021.
- E-learning program for staff which has increased from 618 completed courses in 2019 to 2,076 in 2020.
- Six (6) e-Learning modules were rolled out covering fraud & theft, anti-bribery and corruption, our gifts policy, whistleblowing, conflict of interest and internal irregularities. The modules are meant to enhance employees awareness, alertness to areas of financial crime and improve the financial crime risk culture of the organization.



Our Suppliers and Service Providers



In compliance with the legislation on Anti Money Laundering, Faulu implemented sanctions screening and politically exposed persons (PEPs) screening of suppliers and service providers during the onboarding process. Additional information for legal entities were introduced as part of the mandatory requirements to determine the Ultimate Beneficiary Owner(s), to aid in screening the potential suppliers and service providers during the Know Your Vendor (KYV) process.

To ensure great customer experience, the procurement function conducted supplier due diligence through a supplier enhanced vetting process. The report thereof has assisted the business in supplier development and upskilling to ensure the company partners with service providers who meet the set minimum requirements. In order to ensure business sustainability. Procurement in support of the business is leading a transformational journey christened War on Waste (WOW) where through our cost leadership mantra, focus is given to cost savings initiatives and cost control. WOW is group-wide and seeks opportunities to negotiate existing operational expenses contracts before they are renewed. The Procurement team is conducting a benchmarking exercise with every procurement activity and seeks to rationalise all fixed and variable cost areas to ensure that through cost avoidance, the Company does not incur expenditures that may be avoided.



The communities we serve and environment

Our Corporate Social Responsibilities



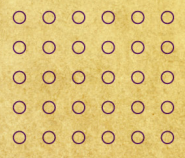
The UAP Old Mutual Faulu Foundation strategy is underpinned on the creation of financial wellbeing for the communities as a critical pillar in the attainment of basic needs. The attainment of financial wellbeing can be achieved through initiatives promoting financial education, skills and literacy programmes, financial inclusion programmes, such as those that seek to strengthen small businesses.

Our initiatives in this category seek to promote the Sustainable Development Goals namely:



Impact:

1. Empower young people with skills for employability and entrepreneurship for job creation
2. Increase the literacy and skills levels in the society to support innovation and development
3. Improved livelihoods through associated benefits of increased earnings per household.

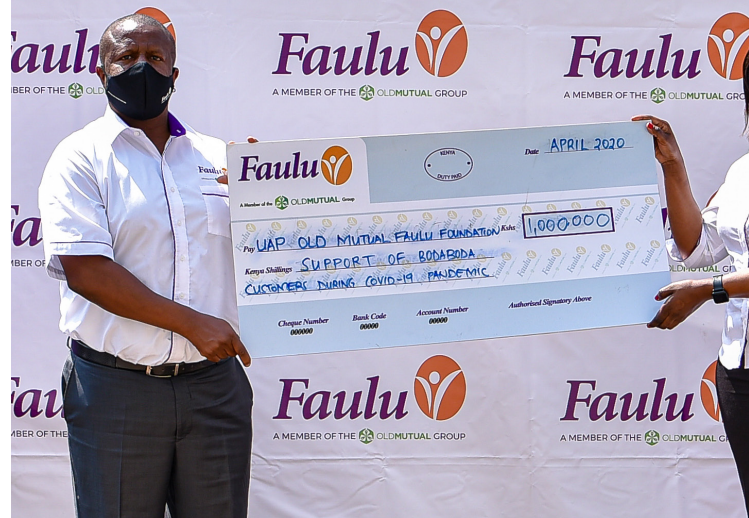




UAP Old Mutual Foundation and Simba Foundation partnered to fund provision of automotive and entrepreneurship training to youth.

In this innovative partnership, students will undertake training based on the Competency Based Education and Training (CBET) curricula. The beneficiaries receive both class and industry training beyond the funding, the partners will provide linkage to garages for industry training, free financial education and mentorship by staff.

UAP Old Mutual Foundation continues to provide financial education at no cost to the beneficiary community.



2020/2021 target

Program partners

5



Vocational training

70 youth



Financial education for communities

1,000

UAP Old Mutual Foundation investment

Kes. 5 Million



UAP Old Mutual Faulu Group response to COVID-19 pandemic



Through partnerships and self-driven initiatives, The UAP Old Mutual Group contributed to various programmes in support of the COVID-19 National response, in line with our Responsible Business ethos as below:

The Foundation spent Kshs 11.5 Million in 2020 in support of various missions

The Foundation contributed Kshs 3.1M to industry joint initiatives towards the National COVID-19 Emergency Response fund.

- Kshs 1.1M to Capital Markets Authority (CMA) through the Asset Management Business Unit
- Kshs 2M to Insurance Regulatory Authority (IRA) through the General Insurance and Life Business Units

In healthcare, a partnership with Gertrude Hospital Foundation enabled the testing of over 175 children and a donation of COVID-19 testing kits and protective equipment worth Kshs 2.8M.

A contribution of Kshs. 5.6M from the foundation helped support community initiatives:

- 26,500 reusable masks were distributed across the counties to uber cab drivers and boda boda (motorcycle operators)
- Shopping vouchers were issued to 434 casual workers across our offices in Kenya to help cushion them against the effects of Covid -19

Lastly, the foundation partnered with staff to support vulnerable groups in their communities by donating iron sheets to land slide victims in West Pokot.





UAP Old Mutual Foundation and Simba Foundation partnership

TRAIN
EDUCATE
ATTRACT
MOTIVATE



Economic

» Local Economic Impact

Credit is the fuel of the economic engine. Over the last five years, our net loans and advances to customers grew at a Compounded Annual Growth Rate (CAGR) of 4.94% to **Kshs. 20.69Bn** in December 2020 from **Kshs. 16.59Bn** in 2015. This was a recognisable performance as net loans and advances to public and private enterprises took a surge.

We pride ourselves in offering financial transformation through provision of financial education and integrated financial services. This includes Banking, Savings, Investments and Insurance solutions through our various channels which comprise mobile banking, Visa Cards, and through our Agents spread countrywide.

Our Accolades Include:

- 1st Runner Up – Outstanding Young Banker of the year Award which was awarded to Wilson Mutai (Branch Manager Faulu Kabarnet)
- 1st Runner up – Best Microfinance Bank in Agriculture and Livestock Financing 2020
- 1st Runner up – Best Microfinance Bank in Product Innovation 2020
- 1st Runner up – Best Microfinance Bank in Digital Banking 2020
- Think Business Award 2016 as the fastest growing Microfinance Bank
- The Best Microfinance Bank in Kenya -Think Business Award 2019
- 6 Wins of the Best Microfinance Bank in Financial Reporting (FiRe award)

- Best Microfinance Bank in Real Estate Financing
- Most Preferred Microfinance bank in Automotive Financing

- Best Microfinance Bank in Digital Tech Solutions
- SME of the year award in Corporate Citizenship and Environmental Focus
- Winner in Financial Management-SMOYA Award
- Top Employer Award

Faulu has over **300 service providers** and **Ten (10) Foreign Service providers**. In 2020, the bank paid over **Kshs. 800million** to our suppliers with 80% of the total expenses paid to local suppliers.

The following policies and manuals guide Procurement and Facilities management

- Procurement and Facilities management Manual
- Procurement and Facilities Management Policy
- Risk Policy
- Accounting Manual & Operations Manual

Through Partnerships:

Development finance is required for long-term investment and economic growth. We scaled up our long term borrowing to Kshs. 2.02 Billion.

Taxes

We contribute to the creation of prosperity and to the stability of our country by remitting our taxes on time.

Taxes provide essential public revenues for governments to meet economic and social objectives. We view taxation as a mainstream part of our corporate social responsibilities.

Faulu is also KRA's appointed agent to assist the taxman in collection of various taxes across the country.

Social Sustainability Initiatives

Employee Welfare

We are determined to make Faulu a great place to work. We therefore encourage staff to bring out the best in themselves at work and by helping one another realize their full potential. We view one another as part of one big family with each member's welfare as our collective responsibility.

Our Staff welfare club participates and contributes to the welfare of the members in times of need and celebrations. We stand with one another when:

- We welcome newborns
- We celebrate marriages or weddings
- Our staff are hospitalized
- Our staff are bereaved

We invest in out-of-office staff activities such as sports events, team building and Corporate Social Responsibilities to build staff camaraderie.

Our staff engagement initiatives in 2020 were:

Purposeful Casual Fridays: During this day staff are encouraged to follow a dress theme in support of a social cause.

Staff wellness is aimed at encouraging staff to maintain a healthy lifestyle. Some of the activities realised in the year included:

- Annual free medical check-up
- A motivational talk for staff to embrace the Go plus app which allows staff to monitor the usage of their cover
- An encouragement for staff to utilize the online free counselling services in order to seek for psychosocial help and better deal with the challenges of working from home

HR Policies Framework

We have proactive Human Resource (HR) policies, procedures and manuals that guide us on HR related issues. These include:

- Disciplinary, Grievance Policy and Procedures
- Sexual Harassment Policy
- HIV/Aids Policy

- Occupational Health & Safety Policy
- Code of Conduct & Ethics
- Loan Policy
- Whistle blowing policy
- Leave policy
- Promotion policy
- Recruitment policy
- Performance Management policy
- Performance Improvement Policy
- Dress Code Policy
- On job training procedure and work rotation policy

Whistle-blowing Policy

The Whistleblowing policy is intended to encourage and enable employees to raise serious concerns within the bank. This prevents overlooking a problem or simply reporting it outside of the defined channels within the Bank.

The policy provides avenues for staff to raise concerns and receive feedback on any action taken.

Reassure staff that they are protected from reprisals or victimization for "whistleblowing" in good faith.

The policy provides that staff may report an issue if it is unlawful, fraudulent, contrary to the bank's policies and procedures, falls below established standards of practice, amounts to improper conduct or breaches the Bank's Code of Conduct.

The Bank has put in place systems to encourage staff to raise concerns in a structured and protected way. The bank respects the confidentiality of staff raising concerns and sets out arrangements that include the opportunity to raise concerns outside the management structure.

Labour Standards

We appreciate the need for work-life balance for our staff and we have created an inclusive and conducive environment to cater for their different requirements. We support staff in childrearing responsibilities by providing time off work for male and female staff in line with existing labour laws and best practice for enhanced productivity and employee engagement.

The bank has a designated a mothers room equipped with the necessary facilities to support mothers after their maternity leave.

Our Bank maintains cordial relations with the staff union and we continue to foster partnership to ensure that staff interests are addressed on time. There is a Collective Bargaining Agreement that provides guidelines on the management and policies around the unionised employees.

Environmental Sustainability Initiatives

As part of improving the way we manage our direct environmental impacts we have developed an environmental sustainability programme that revolves around reforestation and seeks to ensure we conserve our environment by increasing forest cover as well as keeping the environment around us clean. This has led the bank to organise for tree planting days and clean up days every year. We were not able to take part in these because of the Covid -19 challenges.

A summary of our **Responsible Business Agenda and Goals** are:



01/ Responsible to our customers

We treat our customers fairly, equipping them with financing skills and develop products that meet the needs of our customers. This ensures that they access affordable and transparent financial services.



02/ Responsible investment

We ensure our investments, work practices and buildings are geared towards reducing our direct and indirect impact on the environment.



03/ Responsible to our employees

We ensure we treat our employees fairly, meeting their needs as our internal customers and community members, and giving them an opportunity to give back to society. The Bank does this by:

- Promoting equality in the workplace
- Developing talent to be future fit



04/ Responsible to our communities

We work with our community and other partners to build a better world-contributing to education, skills development and local economic development.



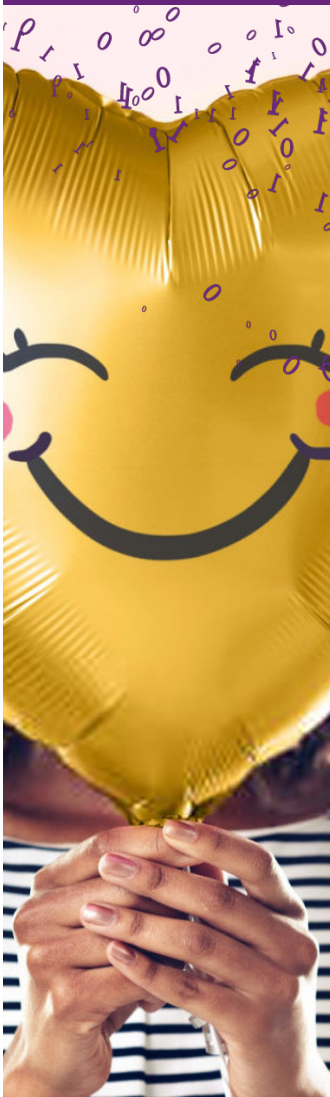
05/ Responsible environment management

We ensure our investments, work practices are geared towards reducing our direct and indirect impact on the environment. Faulu does this by:

- Promoting access to education and health care in the communities we serve
- Conserving the environment and driving sustainable consumption of natural resources



» Staff and Customer Engagement Activities



Faulu Bank engaged in staff and customer engagement activities which involved branch opening events in Homabay and Busia County. The branch opening events were well attended and graced by County government officials. This was a testament of the love, support and trust received from the leadership teams in the County level. Faulu Homabay branch launch event was led by the Homabay Governor H.E. Hon. Cyprian Awiti and his Deputy Governor H.E. Hon. Hamilton Orata while in Busia the Women Representative Hon. Florence Mutua graced the branch opening event. The two events attracted a good turnout in customers and allowed the leadership team and staff to interact with customers.

The discussions were pegged on how to access the competitive products and services that Faulu offers which range from savings, loans and insurance products. Customers also got to learn how to tap onto the partnerships that Faulu has with Car and General and Bajaj that allow youths to access below market priced motorcycles and Tuk Tuks. Other partnerships discussed were on how the farmers in the region can collaborate with the bank to access affordable crop and livestock insurance products to cover risks such as crop failures through the Research Triangle International (RTI) which extends Kenya Crops and Dairy Market Systems program and facilitates formal financial inclusion. Customers also received advise on personal finance management.

The other activities that Faulu took part in were, prayer days to dedicate the year to almighty God and staff training sessions conducted by the leadership team.





The leadership teams held **Wide Area Management** meetings which bring all the departmental leaders and branch management together to plan for the first half of the year. A second prayer day was held after the advent of Covid-19 to re-strategize on how best to work while keeping safe and upholding the Covid -19 containment measures in order to stay on course in achieving the organizations objectives.



The bank took part in **roadshows** in the beginning of the year but slowed down the intensity of these activities in order to uphold the Covid-19 safety measures that were communicated by management and the Ministry of Health. The Roadshows were instrumental to the bank allowing financial advisors to meet clients in their respective work jurisdiction to give financial advice and proactively sell the banks offerings relevant to the customer's needs.

Faulu ladies observed the **International Women's Day** by donning their purple attire and abiding by the theme of the year which was 'an equal world is an enabled world.'





Staff observed the **Customer service week from 5th to 9th October 2020.**

This week and month were dedicated to ensuring staff appreciate customers for supporting the business especially during a hard year when businesses were dealing with the effects of the Corona Virus.

There was a dress code to be observed and themes to be followed throughout the month. The main theme for Customer service being **Dream Team 2020**. The staff were encouraged to be cohesive yet flexible, empathetic, efficient and results oriented.



Faulu Launched a New Rensoft Bancassurance System

Faulu Bank launched a system that has fully automated all bancassurance processes at its 61 outlets countrywide. The Faulu Bancassurance System, which was deployed in January 2020 and is now being implemented has greatly improved operational efficiencies, delivered convenience and speed to customers who buy insurance products and services.

The system automatically issues quick quotations, facilitates cover processing and administers all insurance products underwritten by UAP Old Mutual Group amongst other insurance companies.

“Bancassurance is an important part of our service offering because it helps our customers access a wide range of insurance products, helping them protect the wealth that they work so hard to create,” said Faulu Bank Managing Director, Apollo Njoroge during the launch of the system. This innovation increased the banks revenue to post a **profit before tax (PBT) of Kshs. 29.56Million** in 2020 compared to a **PBT of Kshs. 25.95 Million** in 2019.

The new system is also expected to improve decision-making at the bank, due to the timeliness and accuracy of the data it produces and the fact that it will be integrated with the Bank’s core banking system.

“With this new system we will collect data with greater scientific precision. This will enable us to improve the customer experience by delivering value to our customers concluded Mr. George Maina, Faulu Bank Board Director.



Partnership with Kenyan Alliance Resident Association (KARA)

The UAP Old Mutual Life Business and Faulu partnered with Kenyan Alliance Residents Association (KARA) to drive individual and SME covers. KARA will expose the banks and insurance solutions to their customers through UAP Old Mutual sponsored webinars, feature articles and direct mail as well as other channels.

Among the products that they will champion include a last expense cover ranging between Kshs. 50,000- Kshs. 500,000 for KARA members and their loved ones, with premiums starting as low as Kshs. 600 up to a maximum of Ksh5,667 per annum. The digital cover can be purchased via a mobile phone app and is among products to be rolled out under the partnership. Faulu Insurance Agency will oversee the marketing of the cover with Old Mutual Life Assurance Company underwriting the product.

KARA is an umbrella body for over 1,300 resident associations in Kenya that was formed originally to drive access to public service and has grown into partnerships with private sector players to add value to its over 0.25 million members.

The partnership will also see the parties collaborate in developing other products tailored for KARA membership, conduct financial literacy and awareness programs and other joint activities at national and county level.



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your loan
repayments
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mobile banking platform

Report OF THE Directors



The directors present their report together with the audited financial statements (the “company” or Bank” or “Faulu”) and its subsidiary (together, the “Group”) for the year ended 31st December 2020, which disclose its state of affairs in accordance with the Kenyan Companies Act, 2015 and Microfinance Act, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Bank is the transformation of lives through the provision of loans to micro and small entrepreneurs and deposit taking from the public.

OPERATING RESULTS FOR THE YEAR

	Group		Bank	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
(Loss)/profit for the year	(446,417)	564,438	(475,990)	538,491
Taxation charge	72,334	(176,894)	76,854	(169,115)
(Loss)/profit for the year	(374,083)	387,544	(399,136)	(369,376)



Business Review

Operating environment

The year 2020 was characterised by:

A tough operating environment

The COVID-19 pandemic has damaged economies across the world, including financial markets and other institutions in all possible dimensions. Banks were equally affected by the pandemic mostly through increased default rates because of slowed economic activities due to lockdowns. Companies relying on direct customer contact like hospitality and transport were lost revenues leading massive job losses. In addition banks were negatively affected as bonds and other traded financial instruments lost their value significantly. Slow economic activities also led to fewer non-interest income (NII) to the banks.

However, the outlook is optimistic going by efforts to tame the pandemic through vaccination and the beginning of a rebound in activities experienced in the last quarter of 2020.

Surging NPLS

The sector has been struggling with mounting unpaid loans accelerated by the pandemic, a freeze in listing defaulters

for a period of 3 months, a weak asset quality dragged from 2019, sustained low loan growth and other prevalent factors such as delay in government payments. Borrowers defaulted over Kes.53billion between the onset of the pandemic to quarter 3, 2020. Vulnerable sectors with high Non Performing Loans (NPLs) include trade, Personal lending, manufacturing, real estate and tourism.

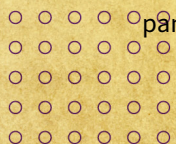
Digital Channels and partnerships

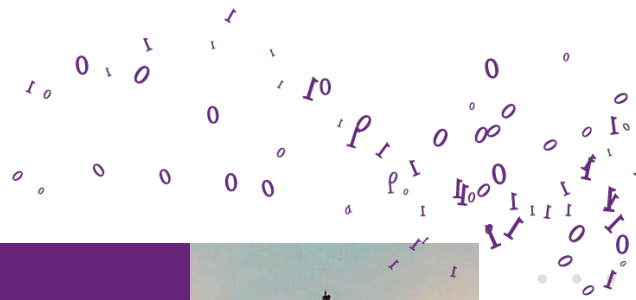
This is a key battleground for banks as they try to convince investors they can incorporate an effective digital path for customers, while also reducing costs and not risking operational resilience. Acceleration of technology has been the silver lining during the COVID-19 pandemic, only one out of ten transactions are done in the banking branches with increased preference on mobile banking.

(i) SMEP Microfinance Bank Ltd – relaunched its banking app to serve its customers digitally. Customers can access services such as short-term loans, bills payment etc.

(ii) Credit Bank Limited – introduced an online cheque clearing system

(iii) Equity Bank Limited - introduced online forex trading and web banking for chamas.





Banks Deposits

Banks experienced a surge in deposits as investors opted to save rather than invest during the year attributed to the pandemic. Companies and high net worth individuals saved over Kshs. 1.4B daily in banks over six months to September 2020. Additionally, increased deposits emanated from digital channels as cashless payments was encouraged. However, accounts with more than 100,000 shrunk owing to cash flow problems caused by a decline in income. Banks deposits increased to Kshs. 3.9 trillion by quarter up from Kshs. 3.6 trillion in March. Deposits and savings rates have been on a decline as lending activities reduced.

Mergers and acquisitions

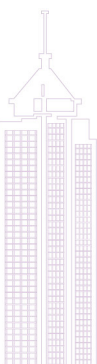
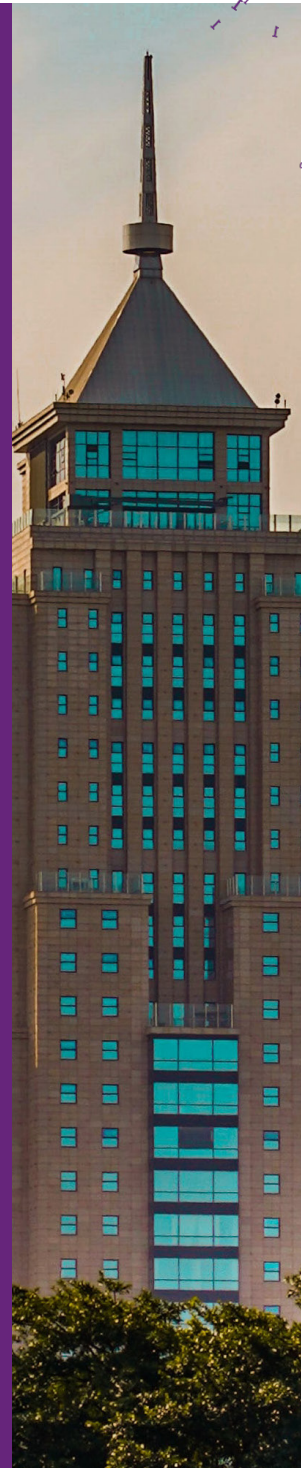
Consolidation activity remained one of the key highlights witnessed in 2020 as players in the sector were either acquired or merged leading to the formation of relatively larger, well capitalized and possibly more stable entities.

Major M&A's activities witnessed 2020 included:

- (i) NIC Bank Limited and Commercial Bank of Africa (CBA) merged to form NCBA Bank
- (ii) Kenya Commercial Bank (KCB) acquired National Bank of Kenya (NBK)
- (iii) Commercial International Bank- acquired Mayfair Bank
- (iv) Access Bank Nigeria acquired Transnational Bank
- (v) Cooperative Bank Limited acquired Jamii Bora Bank Limited (now Kingdom Bank Limited)

Market Description and Branch Networks

The Bank has 56 banking branches, 5 non-banking branches and 630 appointed agents. These hubs and branches currently serve close to 480,000 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 did not close any banking branches but opened two additional branches.



Business Review (cont.)

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, deposits, credit as well as bancassurance products.

Risk Management

The Bank 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 bank's risk-management functions, which act as a second line of defence between frontline employees who work directly with customers and the internal risk teams, also had to adjust the way they operate. They also had to adopt new practices to monitor existing risks and guard against new ones including cyber risks triggered by the pandemic. The Bank 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 Bank's financial risks and how they are mitigated.

Conclusion

We are optimistic that the operating environment will improve in 2021 as we continue to deliver impressive profit growth, anchored on our balance sheet strength, bancassurance products and launch of digital platform. The impressive growth on all fronts is supported by robust foundation over the years and it is upon this solid foundation that we launch into 2021 with great excitement.

DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year (2020: Shs 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 71.

AUDITORS

The auditors, Deloitte & Touche, having expressed their willingness to continue in office 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 objectively monitor the effectiveness 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 company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

BY ORDER OF THE BOARD



Nkirote K. Mworira

Secretary

Nairobi.

2021

You can
**deposit
directly**
to your account

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Mpesa to Bank



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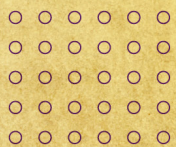
Corporate Governance Statement

Faulu Microfinance Bank Limited received its Deposit Taking License from the Central Bank of Kenya on 21st 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 Faulu Microfinance Bank Limited 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 Company. 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 has unfettered power or can dominate the Board decision making process.

As at 31st December 2020, the Board is comprised of five (5) Directors majority of whom are non-executive Directors with one (1) executive director and was undertaking rigorous appointment of additional directors for a robust composition of the Board.

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 company; 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 company, corporate values and standards, and ensures that its obligations to shareholders are understood and met. In particular, their responsibilities include the following:

- Approving and monitoring the implementation of the strategic plan and annual business plans including regular review of the Company’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 Company maintains an effective system of internal controls, processes and the at the Company 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 Company to the Management team which is headed by the Managing Director.



Corporate Governance Statement (cont.)

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 Board's 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 Company and key / material developments to the Board.
- Communicating with internal and external stakeholders on matters affecting the Company.
- Ensuring that the Company 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 five main Board committees:

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

Other ad hoc committees are set up as and when the need arises. The 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 2020, the Board met seven (7) times.

Corporate Governance Statement (cont.)

The Board attendance during the year was as follows:

Board of Directors	Role	Attendance at qualifying meetings	Average Attendance
Dr. Peter W. Muthoka	Chairman Non-Executive Director	2/2	100%
George A. Maina	Chairman Non-Executive Director	7/7	100%
Dr Catherine N. Kimura	Non- Executive Director	3/3	100%
Sophia Mukoba	Independent Non- Executive Director	6/7	86%
Joshua Muiru	Independent Non- Executive Director	5/5	100%
Peter J. Mogan	Non- Executive Director	4/7	57%
Peter K. Mwangi	Non- Executive Director	2/2	100%
Peter Gachuba	Independent Non- Executive Director	7/7	100%
Apollo Njoroge	Executive Director	7/7	100%
Andre Keller	Non-Executive Director	5/6	83%

The Audit Committee

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

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

The Committee held five (5) meetings in the year and attendance during the year was as follows:

Membership During The Year	
Joshua Muiru*	100%
Sophia Mukoba	100%
Peter Mogan	75%

*Retired 30 September 2020

The Risk Management Committee

The Board delegates the responsibility to ensure quality, integrity and reliability of the Company's risk management to the Board Risk Management Committee. The Committee met four (4) times in the year 2020 and its responsibilities were as follows:

- Establishing the company's risk control system and ensure the risk policies, including risk tolerances, consistent with the Risk Management Program are effectively identified, measured, monitored and controlled;
- Set out the nature, role, responsibility and authority of the risk management function with the Company and outline the risk management work;

Corporate Governance Statement (cont.)

- (c) Reviewing the adequacy of the company'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 company 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 was as follows:

Membership During The Year	
George A Maina	100%
Peter Mwangi*	100%
Joshua Muiru**	100%
Sophia Mukoba	100%
Peter Gachuba	100%

*Resigned 14 April 2020

**Retired 30 September 2020

The Credit Committee

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

- (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 issued 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	
Peter Gachuba	100%
Dr. Catherine N. Kimura*	100%
Andre Keller**	100%
Apollo Njoroge	100%

*Retired 30 September 2020

**Resigned 15 December 2020

The Governance, Remuneration and Nominations Committee

The Governance Remuneration and Nominations committee is responsible for all aspects of appointment of the Company'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.

Corporate Governance Statement (cont.)

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

- (a) Provide oversight in the development and monitoring of governance-related policies including the review of the Board and committee terms of reference;
- (b) 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;
- (c) 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;
- (d) Recommend the continuation (or not) in service of any director who has reached the institutions retirement age limit;
- (e) Guiding and directing the implementation of remuneration strategy, policies, group-wide remuneration principles, related proposals and structure, whilst taking into consideration local conditions; and
- (f) Monitoring and controlling the remuneration and benefit structures and their costs.

Membership During The Year	
Dr. Peter W. Muthoka*	100%
George Maina	100%
Peter K Mwangi**	100%
Sophia Mukoba	100%
Arthur Oginga ***	100%

*Retired 31 March 2020

**Resigned 14 April 2020

***Co-opted

The Innovation and Technology Committee

The Innovation and Technology Committee (IT) 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:

- (a) Develop and sustain the IT plan for the Bank and ensure approval by the Board. This include:
 - Responsibility of managing strategic IT related projects like the core banking upgrade/replacement; and
 - Coordinating components of the IT plans from all units across the Bank;
- (b) Develop and recommend the Bank's IT policy;
- (c) Review and recommend IT project development plans in the context of IT strategic and transformation agenda;
- (d) Create ad hoc committees to address strategic ICT issues, when required;
- (e) Review, coordinate and arbitrate major ICT activities across the Bank; and
- (f) Provide an update to the Board, Regulators and the relevant Old Mutual board on the progress made in the identified IT strategic projects and the transformation agenda.

Innovations and Technology Committee	
George Maina	100%
Dr. Catherine Kimura*	100%
Joshua Muiru**	100%
Peter Gachuba	100%
Apollo Njoroge	100%

*Retired 30 June 2020

**Retired 30 September 2020

Corporate Governance Statement (cont.)

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 Company 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. It ensures the company 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 and 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.

Monitoring and Evaluation

The Board assesses its own performance and that of management in the discharge of their duties and responsibilities and develops and submits to the Central Bank of Kenya an annual self-assessment of the Board performance.

Reckless and Fraudulent Activities

The Board of Directors ensures that the institution and management do not;

- (a) Allow a credit facility or guarantee to remain outstanding;
- (b) Incur any liability;
- (c) Enter into any contract or transaction; or
- (d) Conduct its business or part thereof in a fraudulent or reckless manner detrimental to the institution's interest or the interest of depositors or the general public as directed in the Microfinance Act 2006 s.32).

Scheme of Arrangement

The Board of Directors ensures that the institution does not enter into any scheme of arrangement with its creditors.

Restriction on Trading and Investment

The Board of Directors certifies that Faulu Microfinance Bank Limited:

- (a) Has not acquired or held, directly or indirectly, any part of the share capital of; or
- (b) Have a beneficial interest in any financial, commercial, agricultural, industrial or other undertaking, where the value of the institution's interest exceeds 25% in the aggregate of the institution's core capital except in an undertaking in fulfilment of a debt due to the institution.

Corporate Governance Statement (cont.)

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. Faulu Microfinance Bank Limited 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 5 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. It ensures that the Bank 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

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Statement of Director's 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 company 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 made an assessment of 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 29th March 2021 and signed on its behalf by:



George A. Maina
Chairman



Apollo N. Njoroge
Managing Director



Independent Auditors' Report to the members of Faulu Microfinance Bank Limited

Report on the Audit of the Consolidated and Bank Financial Statements

Opinion

We have audited the accompanying financial statements of Faulu Microfinance Bank Limited (the "bank") and its subsidiary (together, the "group"), set out on pages 81 to 151, which comprise the group and bank statement of financial position as at 31 December 2020, and the group and bank statements of profit or loss and other comprehensive income, the group and bank statements of changes in equity and the group and bank statements of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the group and bank financial statements give a true and fair view of the group and bank financial position as at 31 December 2020 and of their group and bank financial performance and group and bank cash flows for the year then ended in accordance with International Financial Reporting Standards

("IFRS") and the requirements of the Kenyan Companies Act, 2015.

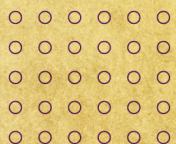
Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), which is consistent with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

The directors are responsible for the other



Independent Auditors’ Report to the members of Faulu Microfinance Bank Limited (cont.)

information, which comprises corporate information, chairman’s statement, report of the directors and corporate governance statement. The other information does not include the financial statements and our auditor’s report thereon.

Our opinion on the group and bank financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the group and bank financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group and bank financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, 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 and Those Charged with Governance

The directors are responsible for the preparation of the group and bank financial statements that give a true and fair view in accordance with IFRS and the requirements of the Kenyan companies Act and for such internal controls as directors determine are necessary to enable the preparation of group and bank financial statements that are free from material misstatement whether due to fraud or error.

In preparing the group and bank financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, 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 bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for

overseeing the Group financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated and Bank financial statements

Our objectives are to obtain reasonable assurance about whether the group and bank financial statements as a whole 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 on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the group and bank 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 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’



Independent Auditors' Report to the members of Faulu Microfinance Bank Limited (cont.)

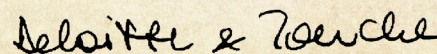
use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists. We are required to draw attention in our auditor's report to the related disclosures in the 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 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 group and bank financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the group and bank financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

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 6 to 8 is consistent with the group and bank financial statements.



Certified Public Accountants (Kenya)
Nairobi, Kenya

29th March 2021

FCPA Anne Muraya, Practising certificate No. 1697
Signing partner responsible for the independent audit



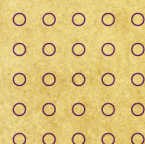
Statement of Profit or Loss and other comprehensive income for the year ended 31 December 2020

	Note	GROUP		BANK	
		2020 Shs'000	2019 Restated Shs'000	2020 Shs'000	2019 Restated Shs'000
Interest income	5	4,499,890	4,745,458	4,499,890	4,745,458
Interest expense	6	(2,283,130)	(2,300,721)	(2,283,130)	(2,300,721)
Net interest income		2,216,760	2,444,737	2,216,760	2,444,737
Fees and commissions	7	421,400	566,113	385,372	534,267
Foreign exchange (loss)/income		(1,679)	1,265	(1,679)	1,265
Other operating income	8	34,016	37,639	29,267	33,333
Operating income		2,670,497	3,049,754	2,629,720	3,013,602
Administration and operating expenses	9	(2,166,665)	(2,132,961)	(2,157,518)	(2,121,652)
Impairment losses on loans and receivables	11	(954,132)	(354,662)	(952,075)	(355,766)
		(3,120,797)	(2,487,623)	(3,109,593)	(2,477,418)
Operating (loss)/profit		(450,300)	562,131	(479,873)	536,184
Share of associate company's profit	18	3,883	2,307	3,883	2,307
(Loss)/profit before tax		(446,417)	564,438	(475,990)	538,491
Taxation charge	12(a)	72,334	(176,894)	76,854	(169,115)
(Loss)/profit for the year		(374,083)	387,544	(399,136)	369,376
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Surplus on revaluation of buildings		30,624	-	30,624	-
Deferred tax liability arising on revaluation surplus		(9,187)	-	(9,187)	-
Other comprehensive income		21,437	-	21,437	-
Total comprehensive loss/(profit) for the year		(352,646)	387,544	(377,699)	369,376

Statement of financial position as at 31 December 2020

GROUP

ASSETS	Note	31 December	31 December	1 January
		2020	2019	2019
		Shs'000	Restated Shs'000	Restated Shs'000
Local currency cash		398,943	408,188	349,311
Balances due from banks and financial institutions		226,770	212,700	677,882
Short term deposits with banks	13	1,452,042	1,366,158	1,963,446
Cash balances with Central Bank of Kenya	14	1,419,902	1,019,103	1,029,099
Loans to customers	15	17,561,162	19,234,571	17,220,894
Government securities	16	4,294,395	3,565,470	1,879,900
Other assets	17	388,308	156,379	331,887
Tax recoverable	12(c)	337,493	164,649	289,354
Due from related companies	30(a)	577	27,169	41,514
Investment in associate companies	18(a)	55,952	53,039	51,424
Deferred tax asset	19	771,001	584,798	574,811
Property and equipment	20	1,408,353	1,345,961	1,414,662
Intangible assets	21	630,626	712,412	877,561
Right of use assets	22	341,674	453,867	-
TOTAL ASSETS		29,287,198	29,304,464	26,701,745
LIABILITIES AND EQUITY				
LIABILITIES				
Cash collaterals	23	478,033	491,063	588,844
Customer deposits	24	22,386,869	19,691,193	17,891,042
Borrowings	25	2,017,292	4,366,275	4,430,520
Other liabilities	26	970,276	867,263	771,688
Lease liabilities	27	422,267	488,659	-
Tax payable	12(c)	2,714	2,312	1,301
Due to related companies	30(b)	30,103	65,409	73,604
		26,307,554	25,972,174	23,756,999
EQUITY				
Share capital	28	480,000	480,000	480,000
Share premium		2,899,759	2,899,759	2,899,759
Accumulated deficit		(675,432)	(302,122)	(690,517)
Revaluation surplus		275,317	254,653	255,504
		2,979,644	3,332,290	2,944,746
TOTAL LIABILITIES AND EQUITY		29,287,198	29,304,464	26,701,745



Statement of financial position as at 31 December 2020

GROUP (cont.)

The financial statements on pages 81 to 151 were approved and authorised for issue by the board of directors on 2021 and were signed on its behalf by:



George A. Maina
Chairman



Sophia Mukoba
Director



Apollo N. Njoroge
Managing Director



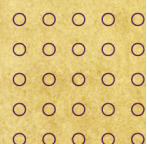
Nkirote K. Mworira
Company Secretary



Statement of financial position as at 31 December 2020

BANK

ASSETS	Note	31 December	31 December	1 January
		2020	2019	2019
		Shs'000	Restated Shs'000	Restated Shs'000
Local currency cash		398,943	408,188	349,311
Balances due from banks and financial institutions		226,770	212,700	677,882
Short term deposits with banks	13	1,452,042	1,366,158	1,963,446
Cash balances with Central Bank of Kenya	14	1,419,902	1,019,103	1,029,099
Loans to customers	15	17,561,162	19,234,571	17,220,894
Government securities	16	4,294,395	3,565,470	1,879,900
Other assets	17	381,968	152,945	324,770
Tax recoverable	12(c)	337,493	164,649	289,354
Due from related companies	30(a)	577	29,658	54,037
Investment in associate companies	18(a)	55,952	53,039	51,424
Investment in a subsidiary	18(b)	5,000	1,000	1,000
Deferred tax asset	19	770,634	584,671	574,361
Property and equipment	20	1,408,023	1,345,564	1,414,170
Intangible assets	21	623,994	712,412	877,561
Right of use assets	22	341,674	453,867	-
TOTAL ASSETS		29,278,529	29,303,995	26,707,209
LIABILITIES AND EQUITY				
LIABILITIES				
Cash collaterals	23	478,033	491,063	588,844
Customer deposits	24	22,453,308	19,753,753	17,940,968
Borrowings	25	2,017,292	4,366,275	4,430,520
Other liabilities	26	968,790	854,073	757,886
Lease liabilities	27	422,267	488,659	-
Due to related companies	30(b)	31,775	65,409	73,604
		26,371,465	26,019,232	23,791,822
EQUITY				
Share capital	28	480,000	480,000	480,000
Share premium		2,899,759	2,899,759	2,899,759
Accumulated deficit		(748,012)	(349,649)	(719,876)
Revaluation surplus		275,317	254,653	255,504
		2,907,064	3,284,763	2,915,387
TOTAL LIABILITIES AND EQUITY		29,278,529	29,303,995	26,707,209



Statement of financial position as at 31 December 2020

BANK (cont.)

The financial statements on pages 81 to 151 were approved and authorised for issue by the board of directors on 2021 and were signed on its behalf by:



George A. Maina
Chairman



Sophia Mukoba
Director



Apollo N. Njoroge
Managing Director



Nkirote K. Mworira
Company Secretary



Statement of changes in equity for the year ended 31 December 2020 - GROUP

	Share capital Shs'000	Share premium Shs'000	Accumulated deficit Shs'000	Revaluation surplus Shs'000	Total Shs'000
At 1 January 2019 – as previously reported	480,000	2,899,759	(142,025)	255,504	3,493,238
Prior year adjustment (note 34)	-	-	(548,492)	-	(548,492)
At 1 January 2019 – restated	480,000	2,899,759	(690,517)	255,504	2,944,746
Total comprehensive income for the year:					
Profit for the year	-	-	387,544	-	387,544
Other comprehensive income	-	-	-	-	-
Total	-	-	387,544	-	387,544
Transfer of excess depreciation net of deferred tax	-	-	851	(851)	-
As at 31 December 2019 – restated	480,000	2,899,759	(302,122)	254,653	3,332,290
At 1 January 2020 – restated	480,000	2,899,759	(302,122)	254,653	3,332,290
Total comprehensive income for the year:					
Loss for the year	-	-	(374,083)	-	(374,083)
Other comprehensive income	-	-	-	21,437	21,437
Total	-	-	(374,083)	21,437	(352,646)
Transfer of excess depreciation net of deferred tax	-	-	773	(773)	-
As at 31 December 2020	480,000	2,899,759	(675,432)	275,317	2,979,644

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

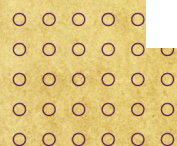
Statement of changes in equity for the year ended 31 December 2020 - BANK

	Share capital Shs'000	Share premium Shs'000	Accumulated deficit Shs'000	Revaluation surplus Shs'000	Total Shs'000
At 1 January 2019 – as previously reported	480,000	2,899,759	(171,384)	255,504	3,463,879
Prior year adjustment (note 34)	-	-	(548,492)	-	(548,492)
At 1 January 2019 – restated	480,000	2,899,759	(719,876)	255,504	2,915,387
Total comprehensive income for the year					
Profit for the year	-	-	369,376	-	369,376
Other comprehensive income	-	-	-	-	-
Total	-	-	369,376	-	369,376
Transfer of excess depreciation net of deferred tax	-	-	851	(851)	-
As at 31 December 2019 - restated	480,000	2,899,759	(349,649)	254,653	3,284,763
At 1 January 2020 – restated	480,000	2,899,759	(349,649)	254,653	3,284,763
Total comprehensive income for the year					
Loss for the year	-	-	(399,136)	-	(399,136)
Other comprehensive income	-	-	-	21,437	21,437
Total	-	-	(399,136)	21,437	(377,699)
Transfer of excess depreciation net of deferred tax	-	-	773	(773)	-
As at 31 December 2020	480,000	2,899,759	(748,012)	275,317	2,907,064

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

Statement of cash flows for the year ended 31 December 2020

	Note	GROUP		BANK	
		2020 Shs'000	2019 Restated Shs'000	2020 Shs'000	2019 Restated Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from /(used in) operations	29(a)	3,076,609	(639,950)	3,069,068	(646,395)
Taxation paid	12(c)	(294,528)	(60,473)	(290,170)	(54,028)
Net cash generated from/(used in) operating activities		2,782,081	(700,423)	2,778,898	(700,423)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of motor vehicles		857	1,365	857	1,365
Investment in subsidiary	18(b)	-	-	(4,000)	-
Purchase of property and equipment	20	(187,775)	(93,927)	(187,775)	(93,927)
Purchase of intangible asset	21	(11,418)	(10,873)	(4,235)	(10,873)
Net cash used in investing activities		(198,336)	(103,435)	(195,153)	(103,435)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	29(c)	750,000	1,889,657	750,000	1,889,657
Borrowings repaid	29(c)	(3,098,983)	(1,953,902)	(3,098,983)	(1,953,902)
Lease repayments	27	(144,053)	(135,490)	(144,053)	(135,490)
Net cash used in financing activities		(2,493,036)	(199,735)	(2,493,036)	(199,735)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		90,709	(1,003,593)	90,709	(1,003,593)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,987,046	2,990,639	1,987,046	2,990,639
CASH AND CASH EQUIVALENTS AT END OF YEAR	29(b)	2,077,755	1,987,046	2,077,755	1,987,046





Notes to the financial statements for the year ended 31 December 2020

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act, 2015.

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) Relevant new standards and amendments to published standards effective for the year ended 31 December 2020

The following new and revised IFRSs were effective in the current year but had no material impact on the amounts reported in these financial statements.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions

occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- There is no substantive change to other terms and conditions of the lease

The adoption of the amendment has not had a material impact on the amounts reported in these financial statements or the accompanying disclosures.

Amendments to References to the Conceptual Framework in IFRS Standards

The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.



Notes to the financial statements

(Cont.)

1. ACCOUNTING POLICIES (Cont.)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2020 (Cont.)*

Amendments to IAS 1 and IAS 8 Definition of material

The Company has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of obscuring material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from, ‘could influence’ to, ‘could reasonably be expected to influence’. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of, ‘material’ or refer to the term ‘material’ to ensure consistency.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(ii) *New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020*

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Reference to Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>

Notes to the financial statements

(Cont.)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

Amendments to IAS 1 – Classification of liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of

recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

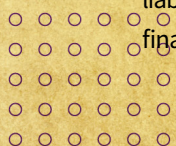
The amendments are applied retrospectively for annual periods beginning on or after 1st January 2023 with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.



Notes to the financial statements

(Cont.)

ACCOUNTING POLICIES (Cont.)

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

ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020 (Cont.)

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

iii) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2020.

(a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, as modified to include revaluation of certain assets at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary Faulu Microfinance Bank Insurance Agency Limited made up to 31 December each year. Subsidiaries are those companies in which the bank has power to exercise control over the operations of the entities. The accounting policies of subsidiaries have been changed where 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.

(b) 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 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.

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.

(c) Investment in associate company

An associate is an entity over which the company 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.



Notes to the financial statements

(Cont.)

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 company'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 company's interest in that associate are recognised only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate.

(d) 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 company'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 company 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.

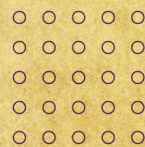
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

(e) Fees and commission

In the normal course of business, the company earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.



Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

(e) Fees and commission (Cont.)

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.

(f) Property and equipment

Property and equipment are stated at cost or as professionally revalued less accumulated depreciation and any impairment charge. Professional valuations are carried out in accordance with the company's policy of revaluing freehold land and buildings. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period and at least once in every three (3) years.

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.

(g) Depreciation

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

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 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.

(h) 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 it's 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.

(i) 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.

Notes to the financial statements

(Cont.)

(j) 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.

Lease term/period

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

Lease payments

The lease payments are paid in advance at the beginning of each quarter from start of the lease date. The lease payments varies with lessors some fixed payments others variable with escalation clauses.

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

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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 losses.

Right-of-use asset is depreciated over the shorter period of 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.



Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

(j) Leases (Cont.)

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.

(k) Impairment of tangible and intangible assets excluding goodwill

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 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 company 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.

(l) Retirement benefit obligations

i) *Company's defined contribution pension scheme*

The company operates a defined contribution pension scheme for its permanent employees. The assets of the scheme are held and administered independently of the company's assets. The scheme is funded by contributions from both the company and employees. The company'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 company's contribution is charged to the profit or loss in the year to which it relates.

ii) *Statutory defined contribution pension scheme*

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme to which the company'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

Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

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

(m) 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 dealt with in the profit or loss in the period in which they arise.

(n) 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;
- Fair Value through Other Comprehensive Income (FVOCI); and

- 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 Central Bank of Kenya, balances due from banking institutions, financing arrangements and other assets at amortised cost.

Fair Value through Other Comprehensive Income (FVOCI)

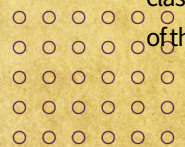
A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- 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 Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis. The Group currently does not have any equity investments.



Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

(n) Financial instruments (Cont.)

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.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead the hybrid financial instrument as a whole is assessed for classification.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank'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;
- an actual or expected significant and 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 Bank 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 Bank 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

Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

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.

(ii) Definition of default

The Bank 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 Bank).

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.

(iii) 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.

(iv) Write-off policy

The Bank 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. Any recoveries made are recognised in profit or loss.

(v) 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 Bank's understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.

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- ○ ○ ○ ○ (a) significant financial difficulty of the issuer or the borrower;
○ ○ ○ ○ ○ (b) a breach of contract, such as a default or past due event



Notes to the financial statements (Cont.)

ACCOUNTING POLICIES (Cont.)

(n) Financial instruments (Cont.)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank 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 Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Derecognition of financial assets

The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank 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 investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit

or loss, but is transferred to retained earnings.

Financial liabilities

After initial recognition, the company 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 company 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.

(o) 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.

(p) 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,



Notes to the financial statements

(Cont.)

ACCOUNTING POLICIES (Cont.)

less advances from banks repayable within three months from the dates of the advances.

(q) 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.

(r) 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.

(s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative information has been restated as a result of prior year errors as disclosed in note 40. In addition, accrued interest relating to Government securities and Short term deposits with banks previously reported under Other assets have been reclassified to the respective accounts.

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 company's policies

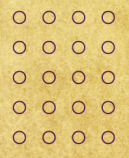
Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank 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 Bank 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 Bank'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.

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.



Notes to the financial statements (Cont.)

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

Significant increase in credit risk (cont.)

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 Bank 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 Bank 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 depreciation rates for property and equipment.

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 company 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.



Notes to the financial statements

(Cont.)

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 company's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

Credit risk management

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

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Bank 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 authorisation structure for the approval and

renewal of credit facilities.

- Developing and maintaining the Bank'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 Bank'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 Bank 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 Bank in the management of credit risk.

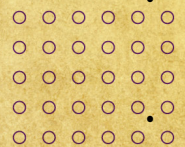
The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

As explained in note 1 the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in 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 Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises ten (10) 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.



Notes to the financial statements (Cont.)

FINANCIAL RISK MANAGEMENT (Cont.)

a) Credit risk (cont.)

Internal credit risk ratings (cont.)

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 Bank's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation 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 behaviour, 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 Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank 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 Bank 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 Bank 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 Bank then uses these forecasts, which are probability-weighted to adjust its estimates of PDs.

The Bank 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 Bank 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 Bank has reasonable and supportable information that demonstrates otherwise.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit risk 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 Bank 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 Bank 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.



Notes to the financial statements

(Cont.)

Incorporation of forward-looking information

The Bank 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 Bank 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 Bank uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank 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 Bank 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.

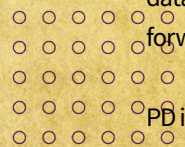
PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is

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.

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 Bank'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 Bank 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.



Notes to the financial statements (Cont.)

FINANCIAL RISK MANAGEMENT (Cont.)

a) Credit risk (cont.)

Measurement of ECL (cont.)

For such financial instruments the Bank 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 Bank 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 Bank 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 Bank 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:

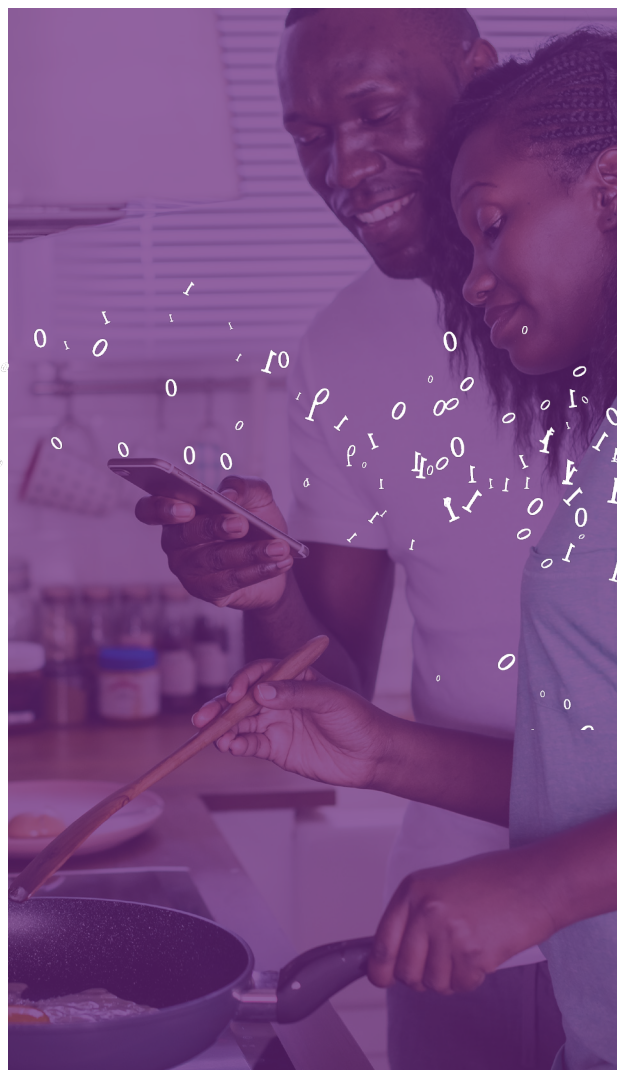
- Instrument type;
- Credit risk grade;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity;

- 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 Bank monitors credit risk per class of financial instrument. An analysis of the Bank'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.



Notes to the financial statements (Cont.)

(i) Management of credit risk

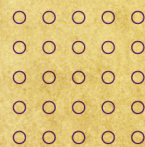
Concentrations of assets:

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

Principal loans to customers	2020	%	2019	%
	Shs'000		Restated Shs'000	
Agriculture	610,835	3%	674,214	3%
Trade	5,856,788	28%	5,821,721	27%
Consumer	14,215,317	69%	15,004,704	70%
	20,682,940	100%	21,500,639	100%
Cash Collaterals				
Agriculture	19,788	4%	20,910	4%
Trade	438,528	92%	457,086	93%
Consumer	19,717	4%	13,067	3%
	478,033	100%	491,063	100%

(ii) Maximum exposure to credit risk before collateral held

Principal loans to customers	2020	%	2019	%
	Shs'000		Restated Shs'000	
Credit exposure on balance sheet items:				
Short term deposits with banks	1,454,068	5%	1,367,205	5%
Loans to customers	20,682,940	74%	21,500,639	77%
Government securities	4,318,974	15%	3,596,092	13%
Bank balances	226,847	1%	212,778	1%
Cash balances with Central Bank of Kenya	1,419,935	5%	1,019,137	4%
Total gross carrying amount	28,102,764	100%	27,695,851	100%
Allowance for credit losses (Note 11(b))	(3,148,493)		(2,297,811)	
Net carrying amount	24,954,271		25,398,040	



Notes to the financial statements (Cont.)

FINANCIAL RISK MANAGEMENT (Cont.)

a) Credit risk (Cont.)

Credit quality (cont.)

An analysis of the Banks's 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 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loans and advances to customers at amortised cost				
Grade 1: Normal	13,264,957	77	9,897	13,274,931
Grade 2: Watch	2,386,194	9,171	9,524	2,404,889
Grade 3: Substandard*	77,699	495,815	-	573,514
Grade 4: Doubtful*	37,149	296,240	177	333,566
Grade 5: Loss	-	88,064	4,007,976	4,096,040
Total gross carrying amount	15,765,999	889,367	4,027,574	20,682,940
Allowance for credit losses	(391,667)	(380,843)	(2,349,268)	(3,121,778)
Net carrying amount	15,374,332	508,524	1,678,306	17,561,162
31 December 2019 - restated				
Loans and advances to customers at amortised cost				
Grade 1: Normal	15,939,495	27,407	4,112	15,971,014
Grade 2: Watch	2,141,853	131,327	14,656	2,287,836
Grade 3: Substandard	-	368,738	2,112	370,850
Grade 4: Doubtful	-	222,721	3,638	226,359
Grade 5: Loss	-	-	2,644,580	2,644,580
Total gross carrying amount	18,081,348	750,193	2,669,098	21,500,639
Allowance for credit losses	(434,177)	(208,484)	(1,623,407)	(2,266,068)
Net carrying amount	17,647,171	541,709	1,045,691	19,234,571

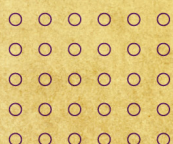
Notes to the financial statements

(Cont.)

*IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. In the current year, the Group rebutted the presumption for certain customers who were deemed to have faced temporary liquidity constraints as a result of COVID-19. As such total loans of Kshs. 114,977,000 (2019: nil) under the substandard and doubtful classes were classified under stage 1.

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

31 December 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loss allowance- Loans and advances to customers at amortized cost				
Loss allowance as at 1 January 2020 - Restated	(434,177)	(208,484)	(1,623,407)	(2,266,068)
Amount charged to P&L (sub-total)	42,510	(172,359)	(822,136)	(951,985)
Originations, purchases and interest accruals	(316,150)	(160,099)	(147,031)	(623,280)
Repayments & other derecognitions, excluding write-offs	157,520	41,558	68,274	267,352
Changes in the loss allowance				
- Transfer to stage 1	(217,764)	86,764	275,039	144,039
- Transfer to stage 2	72,698	(458,581)	128,249	(257,634)
- Transfer to stage 3	403,551	330,850	(1,557,364)	(822,963)
- Changes due to modification that did not result in derecognition.	-	-	-	-
- Changes to model and risk parameters used for ECL calculations	(57,345)	(12,851)	410,697	340,501
- Write-offs	-	-	96,275	96,275
Loss allowance as at 31 December 2020	(391,667)	(380,843)	(2,349,268)	(3,121,778)



Notes to the financial statements (Cont.)

FINANCIAL RISK MANAGEMENT (Cont.)

a) Credit risk (Cont.)

Credit quality (cont.)

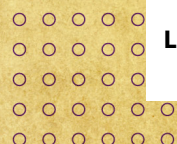
31 December 2019 - Restated	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loss allowance- Loans and advances to customers at amortized cost				
Loss allowance as at 1 January 2019 - Restated	(549,750)	(257,459)	(1,438,560)	(2,245,769)
Amount charged to P&L (sub-total)	115,573	48,975	(515,492)	(350,944)
Originations, purchases and interest accruals	(276,630)	(108,555)	(106,467)	(491,652)
Repayments & other derecognitions, excluding write-offs	60,624	89,881	106,424	256,929
Changes in the loss allowance				
- Transfer to stage 1	(82,598)	25,410	13,013	(44,175)
- Transfer to stage 2	61,632	(91,626)	45,736	15,742
- Transfer to stage 3	243,991	186,136	(443,093)	(12,966)
- Changes due to modification that did not result in derecognition.	-	-	-	-
- Changes to model and risk parameters used for ECL calculations	108,554	(52,271)	(131,105)	(74,822)
- Write-offs	-	-	330,645	330,645
Loss allowance as at 31 December 2019	(434,177)	(208,484)	(1,623,407)	(2,266,068)

Notes to the financial statements

(Cont.)

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

31 December 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loss allowance- Other financial assets at amortised cost				
Loss allowance as at 1 January 2020	(31,837)	(182)	(13,674)	(45,693)
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	(1,435)	(10,401)	-	(11,836)
Financial assets that have been derecognised	6,519	-	5,228	11,747
Loss allowance as at 31 December 2020	(26,753)	(10,583)	(8,446)	(45,782)
31 December 2019				
Loss allowance- Other financial assets at amortised cost				
Loss allowance as at 1 January 2019	(26,035)	(4,343)	(10,208)	(40,586)
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	(5,855)	-	(3,466)	(5,160)
Financial assets that have been derecognised	53	4,161	-	4,214
Loss allowance as at 31 December 2020	(31,837)	(182)	(13,674)	(45,693)



Notes to the financial statements

(Cont.)

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

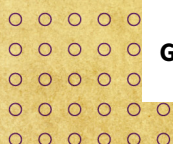
31 December 2020	Stage 1	Stage 2	Stage 3	
Banking	12-month	Lifetime	Lifetime	
Gross carrying amounts- Loans and advances to customers at amortised cost	ECL	ECL	ECL	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Gross carrying as at 1 January 2020	18,123,197	750,851	2,626,591	21,500,639
Changes in the loss allowance				
- Transfer to stage 1	873,986	(321,490)	(552,496)	-
- Transfer to stage 2	(651,128)	879,973	(228,845)	-
- Transfer to stage 3	(1,678,368)	(471,586)	2,149,954	-
- Write-offs	-	-	(96,275)	(96,275)
New financial assets originated or purchased	7,964,916	338,855	267,654	8,571,425
Financial assets that have been derecognised	(8,881,315)	(287,237)	(124,297)	(9,292,849)
Gross carrying amounts as at 31 December 2020	15,751,288	889,366	4,042,286	20,682,940
31 December 2019 - Restated				
Banking				
Gross carrying amounts- Loans and advances to customers at amortised cost				
Gross carrying as at 1 January 2019	16,648,996	1,072,256	2,498,204	20,219,456
Changes in the loss allowance				
- Transfer to stage 1	1,174,931	(676,855)	(498,076)	-
- Transfer to stage 2	(334,467)	596,915	(262,448)	-
- Transfer to stage 3	(1,238,259)	(313,326)	1,551,585	-
- Write-offs	-	-	(330,645)	(330,645)
New financial assets originated or purchased	10,532,690	279,177	115,669	10,927,536
Financial assets that have been derecognised	(8,660,694)	(207,315)	(447,699)	(9,315,707)
Gross carrying amounts as at 31 December 2019	18,123,197	750,852	2,626,590	21,500,639



Notes to the financial statements (Cont.)

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

December 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Gross carrying amounts- Loans and advances to customers at amortized cost				
SME				
Gross carrying as at 1 January 2020	1,830,414	276,775	1,470,754	3,577,943
- Transfer to stage 1	297,742	(100,946)	(196,796)	-
- Transfer to stage 2	(69,785)	178,674	(108,889)	-
- Transfer to stage 3	(397,247)	(156,142)	553,389	-
- Write-offs	-	-	(5,031)	(5,031)
New financial assets originated or purchased	858,714	17,676	75,753	952,143
Financial assets that have been derecognized	(937,908)	(108,957)	(19,285)	(1,066,150)
Gross carrying amounts as at 31 December 2020	1,581,930	107,080	1,769,895	3,458,905
Community				
Gross carrying as at 1 January 2020	1,749,256	252,050	591,597	2,592,903
- Transfer to stage 1	283,098	(116,710)	(166,388)	-
- Transfer to stage 2	(63,991)	113,941	(49,950)	-
- Transfer to stage 3	(621,362)	(73,204)	694,566	-
- Write-offs	-	-	(9,826)	(9,826)
New financial assets originated or purchased	858,714	87,565	107,243	1,053,522
Financial assets that have been derecognized	(942,593)	(106,003)	(51,458)	(1,100,054)
Gross carrying amounts as at 31 December 2020	1,263,122	157,639	1,115,784	2,536,545
Retail				
Gross carrying as at 1 January 2020	14,543,527	222,027	564,240	15,329,794
- Transfer to stage 1	293,146	(103,834)	(189,312)	-
- Transfer to stage 2	(517,353)	587,358	(70,005)	-
- Transfer to stage 3	(659,759)	(242,240)	901,999	-
- Write-offs	-	-	(81,419)	(81,419)
New financial assets originated or purchased	6,247,488	233,614	84,658	6,565,760
Financial assets that have been derecognized	(7,000,815)	(72,277)	(53,553)	(7,126,645)
Gross carrying amounts as at 31 December 2020	12,906,234	624,648	1,156,608	14,687,490



Notes to the financial statements (Cont.)

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

December 2019 - Restated	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
SME				
Gross carrying as at 1 January 2019	2,416,416	498,051	1,490,186	4,404,653
-Transfer to stage 1	490,998	(328,217)	(162,781)	-
-Transfer to stage 2	(20,893)	163,386	(142,493)	-
-Transfer to stage 3	(805,479)	2,861	802,618	-
-Write-offs	-	-	(173,276)	(173,276)
New financial assets originated or purchased	810,866	36,050	2,718	849,634
Financial assets that have been derecognized	(1,061,494)	(95,356)	(346,218)	(1,503,068)
Gross carrying amounts as at 31 December 2019	1,830,414	276,775	1,470,754	3,577,943
Community				
Gross carrying as at 1 January 2019	1,359,659	197,341	559,198	2,116,198
-Transfer to stage 1	273,660	(136,782)	(136,878)	-
-Transfer to stage 2	(47,842)	97,792	(49,950)	-
-Transfer to stage 3	(160,940)	(73,947)	234,887	-
-Write-offs	-	-	(33,865)	(33,865)
New financial assets originated or purchased	1,461,646	150,370	69,535	1,681,551
Financial assets that have been derecognized	(1,136,927)	17,276	(51,330)	(1,170,981)
Gross carrying amounts as at 31 December 2019	1,749,256	252,050	591,597	2,592,903
Retail				
Gross carrying as at 1 January 2019	12,872,921	376,864	448,820	13,698,605
-Transfer to stage 1	410,273	(211,856)	(198,417)	-
-Transfer to stage 2	(265,732)	335,737	(70,005)	-
-Transfer to stage 3	(271,840)	(242,240)	514,080	-
-Write-offs	-	-	(123,504)	(123,504)
New financial assets originated or purchased	8,260,178	92,757	43,416	8,396,351
Financial assets that have been derecognized	(6,462,273)	(129,235)	(50,150)	(6,641,658)
Gross carrying amounts as at 31 December 2019	14,543,527	222,027	564,240	15,329,794

Notes to the financial statements

(Cont.)

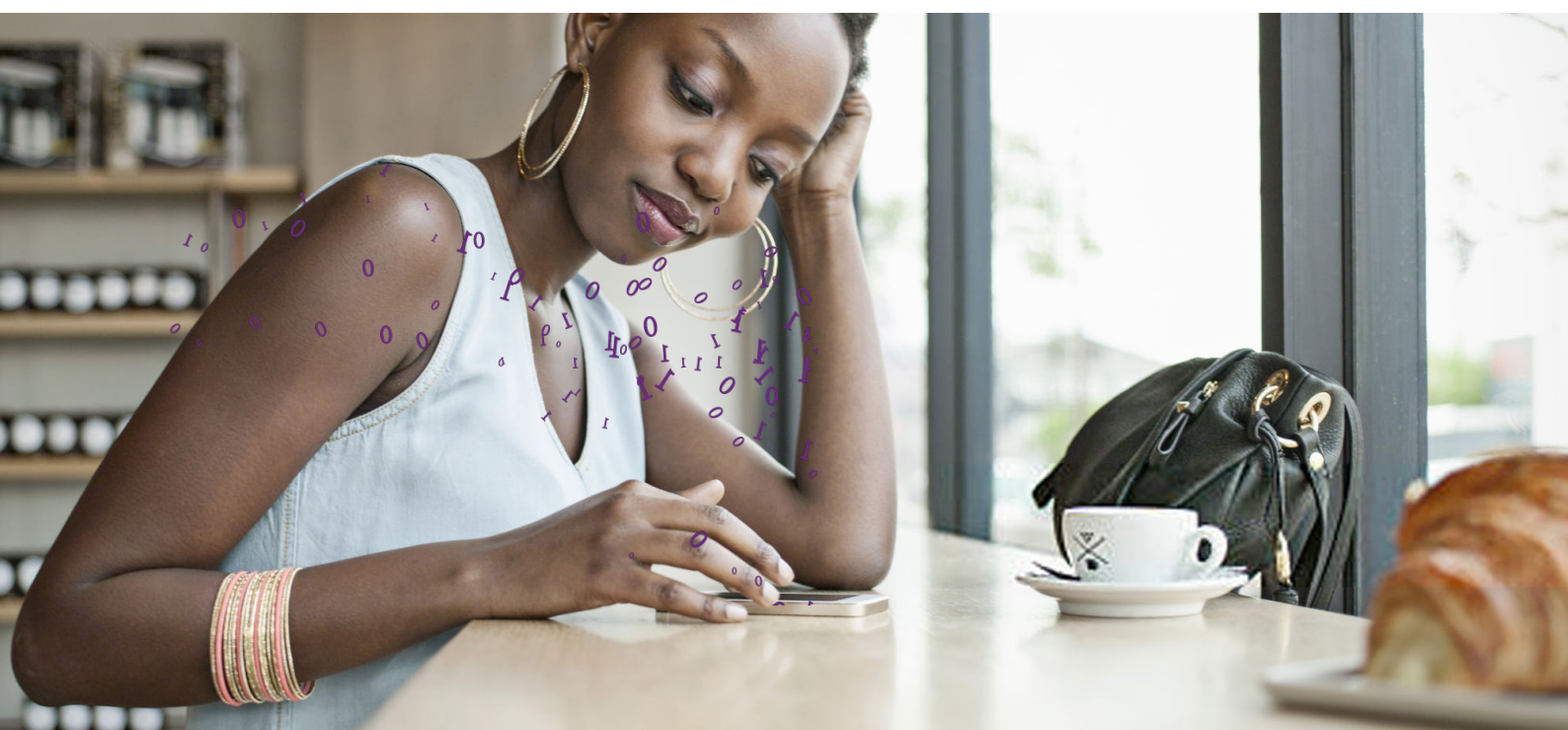
The tables below analyse the movement of the credit loss allowance amount during the year per product.

31 December 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
SME				
Loss allowance as at 1 January 2020- restated	(10,222)	(21,956)	(739,172)	(771,350)
Amount charged to P&L (sub-total)	369	16,563	(114,309)	(97,377)
Originations, purchases and interest accruals	(6,444)	(894)	(250)	(7,588)
Repayments & other derecognitions, excl write-offs	5,378	1,502	929	7,809
Changes in the loss allowance				
-Transfer to stage 1	(88,362)	53,380	19,049	(15,933)
-Transfer to stage 2	10,265	(162,770)	28,694	(123,811)
-Transfer to stage 3	79,496	121,331	(289,302)	(88,475)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	36	4,014	126,571	130,621
-Write-offs	-	-	5,031	5,031
Loss allowance as at 31 December 2020	(9,853)	(5,393)	(848,450)	(863,696)
Community				
Loss allowance as at 1 January 2020- restated	(116,427)	(71,864)	(352,125)	(540,416)
Amount charged to P&L (sub-total)	20,810	22,571	(276,106)	(232,725)
Originations, purchases and interest accruals	(89,140)	(40,617)	(71,110)	(200,867)
Repayments & other derecognitions, excl write-offs	35,067	9,839	11,284	56,190
Changes in the loss allowance				
-Transfer to stage 1	(33,663)	32,108	135,122	133,567
-Transfer to stage 2	16,969	(36,485)	34,311	14,795
-Transfer to stage 3	115,643	49,280	(495,475)	(330,552)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	(24,066)	8,446	109,762	94,142
-Write-offs	-	-	9,826	9,826
Loss allowance as at 31 December 2020	(95,617)	(49,293)	(618,405)	(763,315)

Notes to the financial statements (Cont.)

31 December (cont.)

31 December 2020	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Retail				
Loss allowance as at 1 January 2020- restated	(307,528)	(114,664)	(532,109)	(954,301)
Amount charged to P&L (sub-total)	21,330	(211,491)	(431,725)	(621,886)
Originations, purchases and interest accruals	(220,564)	(118,588)	(75,672)	(414,824)
Repayments & other derecognitions, excl write-offs	117,074	30,217	56,061	203,352
Changes in the loss allowance				
-Transfer to stage 1	(95,740)	1,276	120,867	26,403
-Transfer to stage 2	45,464	(259,325)	65,243	(148,618)
-Transfer to stage 3	208,411	160,239	(772,588)	(403,938)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	(33,315)	(25,310)	174,364	115,739
-Write-offs	-	-	81,419	81,419
Loss allowance as at 31 December 2020	(286,198)	(326,155)	(882,415)	(1,494,768)

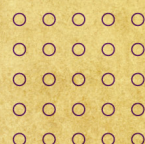


Notes to the financial statements

(Cont.)

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

31 December 2019 – Restated	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
SME				
Loss allowance as at 1 January 2019- restated	(42,330)	(82,347)	(737,787)	(862,464)
Amount charged to P&L (sub-total)	32,109	60,390	(174,661)	(82,162)
Originations, purchases and interest accruals	(6,509)	(1,914)	(1,914)	(10,337)
Repayments & other derecognitions, excl write-offs	10,101	7,739	39,894	57,734
Changes in the loss allowance				
-Transfer to stage 1	(57,036)	14,861	435	(41,740)
-Transfer to stage 2	2,568	(20,082)	17,514	-
-Transfer to stage 3	35,167	86,825	(153,591)	(31,599)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	47,818	(27,039)	(76,999)	(56,220)
-Write-offs	-	-	173,276	173,276
Loss allowance as at 31 December 2019	(10,221)	(21,957)	(739,172)	(771,350)
Community				
Loss allowance as at 1 January 2019- restated	(97,622)	(26,785)	(223,321)	(347,728)
Amount charged to P&L (sub-total)	(18,804)	(45,078)	(162,671)	(226,553)
Originations, purchases and interest accruals	(87,386)	(57,285)	(59,678)	(204,349)
Repayments & other derecognitions, excl write-offs	37,469	6,113	11,558	55,140
Changes in the loss allowance				
-Transfer to stage 1	(18,682)	9,273	9,408	(1)
-Transfer to stage 2	13,600	(39,875)	14,199	(12,076)
-Transfer to stage 3	33,727	45,764	(95,026)	(15,535)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	2,468	(9,068)	(43,132)	(49,732)
-Write-offs	-	-	33,865	33,865
Loss allowance as at 31 December 2019	(116,426)	(71,863)	(352,127)	(540,416)



Notes to the financial statements (Cont.)

31 December 2019 – Restated (cont.)

31 December 2019 – Restated	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Retail				
Loss allowance as at 1 January 2019- restated	(409,798)	(148,326)	(477,451)	(1,035,575)
Amount charged to P&L (sub-total)	102,271	33,662	(178,163)	(42,230)
Originations, purchases and interest accruals	(182,732)	(49,358)	(44,877)	(276,967)
Repayments & other derecognitions, excl write-offs	13,054	76,029	54,972	144,055
Changes in the loss allowance				
-Transfer to stage 1	(6,880)	1,276	3,169	(2,435)
-Transfer to stage 2	45,464	(31,669)	14,022	27,817
-Transfer to stage 3	175,097	53,548	(194,475)	34,170
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	58,268	(16,164)	(10,974)	31,130
-Write-offs	-	-	123,504	123,504
Loss allowance as at 31 December 2019	(307,527)	(114,664)	(532,110)	(954,301)

As discussed above in the significant increase in credit risk section, under the Bank'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 31 December 2020	Gross Shs '000	Net Shs '000	Loans to customers 31 December 2019	Gross Shs '000	Net Shs '000
IFRS 9 Stage 1 (0- 30 days)	15,751,288	15,374,332	Neither past due nor impaired (0-30 days)	18,123,197	17,647,171
IFRS 9 Stage 2 31- 90 days)	889,366	508,524	Past due but not impaired (31-90 days)	750,852	541,709
IFRS 9 Stage (Over 90 days)	4,042,286	1,678,306	Impaired Over 90 days)	2,626,590	1,045,691
	20,682,940	17,561,162		21,500,639	19,234,571

Cash Collateral held

The Bank's cash collateral consists of collateral held against loans and receivables to group customers (note 23). The fair value of cash collateral is Shs. 478,033,000 (2019: Shs. 491,063,000). Other forms of collateral include land, buildings and motor vehicles with total capped value of Shs. 3.4 billion (2019: Shs. 3.5 Billion)

Notes to the financial statements (Cont.)

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:

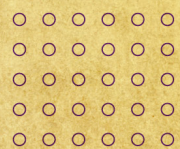
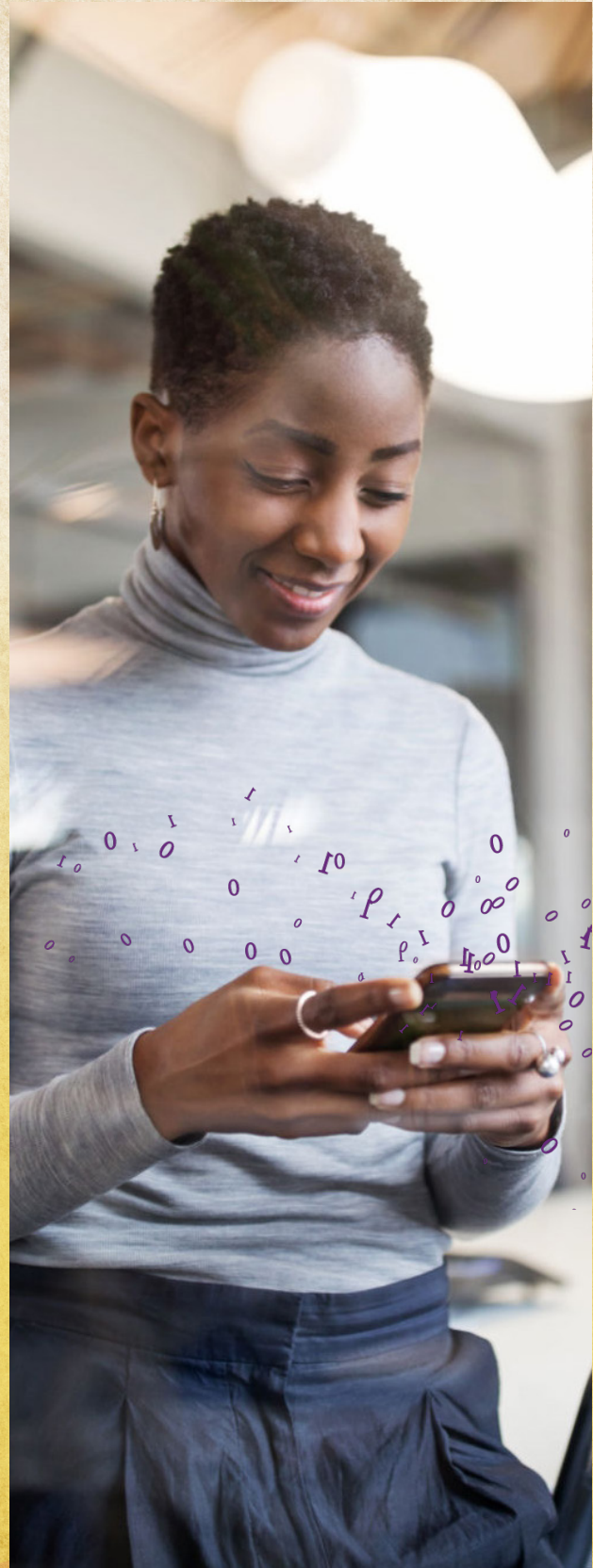
(i) Management of liquidity risk

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 company'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 Bank as a whole. The liquidity ratio as at 31 December 2020 was 28.6% (2019:26.5%). The Central Bank of Kenya liquidity regulatory requirement is 20%.

(ii) Source of funding

The company 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.



Notes to the financial statements

(Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

b) Liquidity risk (cont.)

As at December 2020	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 Sh'000
FINANCIAL LIABILITIES								
Cash collateral held	1,235	39,044	80,069	151,699	197,206	7,099	1,681	478,033
Borrowings	19,631	244,228	1,241,763	225,186	286,484	-	-	2,017,292
Customer deposits	8,584,807	7,579,985	3,688,620	2,484,913	114,387	596	-	22,453,308
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
FINANCIAL ASSETS								
Cash and bank balances	625,790	-	-	-	-	-	-	625,790
Short term deposits	925,203	434,252	20,503	72,084	-	-	-	1,452,042
Cash reserve requirement	542,898	479,354	233,266	157,145	7,234	5	-	1,419,902
Government securities	2,459,364	966,900	868,131	-	-	-	-	4,294,395
Loans to customers (net)	1,469,287	393,643	944,628	1,871,033	5,866,495	4,017,760	2,998,317	17,561,162
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)	(2,066,528)	(761,536)	5,275,652	4,010,070	2,996,636	404,658
As at 31 December 2019								
Total liabilities (contractual maturity dates)	3,884,186	8,080,854	5,456,374	4,330,487	2,526,211	92,646	25,321	24,376,079
Total assets (expected maturity dates)	2,897,233	3,256,618	1,919,978	2,761,902	6,517,896	4,635,367	4,246,820	26,235,814
NET LIQUIDITY GAP	(986,953)	(4,824,236)	(3,536,396)	(1,568,585)	3,991,685	4,542,721	4,221,499	1,859,735

Notes to the financial statements (Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

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 company'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 Risk Compliance and Credit 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 company 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 risk 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 company 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 company's lending rate or the company's rates are adjusted from time to time to reflect the cost of deposits.

Interest rates on cash collateral held are determined by the company with the company 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 company 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 company. 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.

The table overleaf 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).



Notes to the financial statements (Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

(c) Market risks (cont.)

	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	625,790	-	-	-	-	-	-	-	625,790
Short term deposits	925,203	434,252	20,503	72,084	-	-	-	-	1,452,042
Cash reserve ratio (CBK)	-	-	-	-	-	-	-	1,419,902	1,419,902
Government securities	2,459,364	966,900	868,131	-	-	-	-	-	4,294,395
Loans to customers (net)	1,469,287	393,643	944,628	1,871,033	5,866,495	4,017,760	2,998,316	-	17,561,162
Total financial assets	5,479,644	1,794,795	1,833,262	1,943,117	5,866,495	4,017,760	2,998,316	1,419,902	25,353,291
B. FINANCIAL LIABILITIES									
Borrowings	19,631	244,228	1,241,763	225,186	286,484	-	-	-	2,017,292
Customer deposits	8,584,807	7,579,985	3,688,620	2,484,913	114,387	596	-	-	22,453,308
Cash collateral held	-	-	-	-	-	-	-	478,033	478,033
Total financial liabilities	8,604,438	7,824,213	4,930,383	2,710,099	400,871	596	-	478,033	24,948,633
C. On statement of financial position-interest sensitivity gap									
gap	(3,124,794)	(6,029,418)	(3,097,121)	(766,982)	5,465,624	4,017,164	2,998,316	941,869	404,658
D. As at 31 December 2019									
Total financial assets	1,873,130	3,256,618	1,919,978	2,761,902	6,517,896	4,635,367	4,246,820	1,019,103	26,230,814
Total financial liabilities	3,867,125	8,004,678	5,424,390	4,253,639	2,355,183	-	-	491,063	24,396,078
E. On statement of financial position-interest sensitivity gap									
gap	(1,993,995)	(4,748,060)	(3,504,412)	(1,491,737)	4,162,713	4,635,367	4,246,820	528,040	1,834,736

Notes to the financial statements (Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

(c) Market risks (cont.)

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:

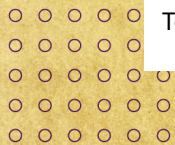
	2020 Shs'000		2019 Shs'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
3% increase in interest rates	(11,594)	(8,116)	71,555	50,088
3% decrease in interest rates	11,594	8,116	(71,555)	(50,088)

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

Currency risk

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

	Shs '000	USD	Euro	GBP	Total Shs '000
A. ASSETS					
Cash and bank balances	521,671	101,849	1,880	390	625,790
Short term deposits with banks	670,115	284,507	-	497,420	1,452,042
Cash reserve ratio (CBK)	1,407,569	10,608	1,720	5	1,419,902
Government securities	4,294,395	-	-	-	4,294,395
Loans to customers (net)	17,561,162	-	-	-	17,561,162
Total financial assets	24,454,912	396,964	3,600	497,815	25,353,291



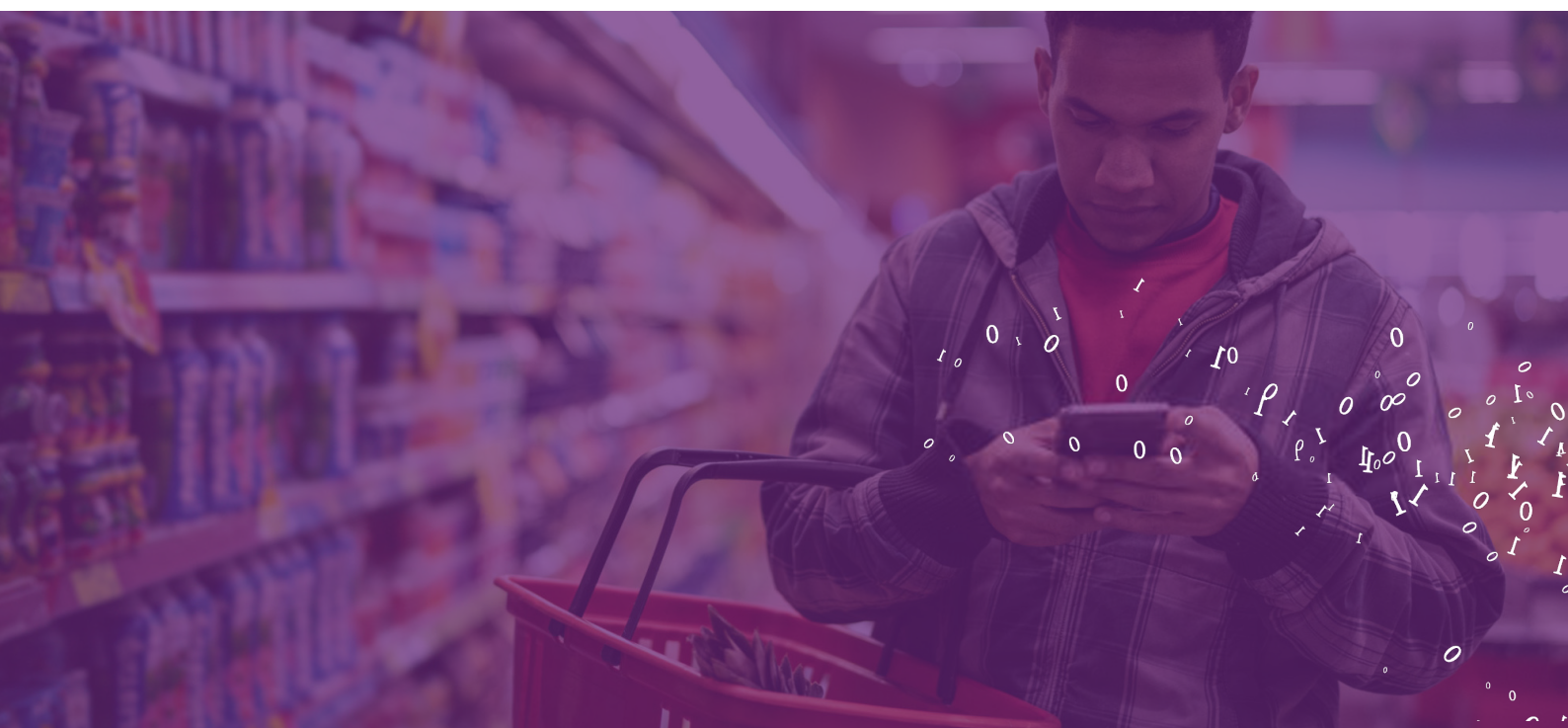
Notes to the financial statements (Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

(c) Market risks (cont.)

Currency Risk (cont.)

	Shs '000	USD	Euro	GBP	Total Shs '000
B. LIABILITIES					
Cash collateral held	478,033	-	-	-	478,033
Borrowings	2,017,292	-	-	-	2,017,292
Customer deposits	22,453,308	-	-	-	22,453,308
Total financial liabilities	24,948,633	-	-	-	24,948,633
C. NET BALANCE SHEET POSITION	(401,031)	396,964	3,600	497,815	404,658
As at 31 December 2019 – Restated					
A Total financial asset	25,790,863	348	2,777	441,825	26,235,813
B Total financial liabilities	24,396,078	-	-	-	24,396,078
C. NET BALANCE SHEET POSITION	1,394,785	348	2,777	441,825	1,839,735



Notes to the financial statements (Cont.)

3. FINANCIAL RISK MANAGEMENT (Cont.)

(c) Market risks (cont.)

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

	2020 Shs'000 Effect on profit	2019 Shs'000 Effect on profit
Currency – Euro		
+ 10% Shs movement	(360)	(278)
- 10% Shs movement	360	278
Currency - US dollars		
+ 10% Shs movement	(39,696)	(35)
- 10% Shs movement	39,696	35
Currency – GBP		
+ 10% Shs movement	(49,782)	(44,183)
- 10% Shs movement	49,782	44,183

4. CAPITAL RISK MANAGEMENT

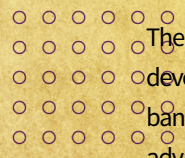
The Central Bank of Kenya sets and monitors capital requirements for microfinance banks.

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 includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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 Microfinance 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 Microfinance 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.



Notes to the financial statements (Cont.)

4. CAPITAL RISK MANAGEMENT (Cont.)

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 reported some breaches in the regulatory capital ratios within the year 2020. However, there is a commitment from the main shareholder Old Mutual Limited to inject capital amounting to Shs. 1.45 billion by 31 March 2021. The capital will be divided into Tier 1 Shs. 500 million and Tier 2 Shs. 950 million.

The capital position at 31 December was as follows;

BANK	2020 Shs'000	2019 Shs'000 Restated
Tier 1 capital		
Share capital	480,000	480,000
Share premium	2,899,759	2,899,759
Accumulated deficit	(748,012)	(349,649)
Total Deductions	(831,586)	(638,710)
	1,800,161	2,391,400
Tier 2 capital		
Revaluation reserve	68,829	63,663
	68,829	63,663
Regulatory capital	1,868,990	2,455,063
Total risk-weighted assets	19,715,361	21,104,348
Borrowings	2,017,292	4,366,275
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum -12%)	9.5%	11.6%
Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum -10%)	9.1%	11.3%

Notes to the financial statements (Cont.)

The Insurance Regulatory Authority (IRA) requires each insurance broker and agency to maintain a minimum level of regulatory capital of Shs. 5,000,000. As at 31 December 2020, the subsidiary Faulu MFB Insurance Agency Limited had a capital of Shs. 76,997,000 (2019 Shs. 48,527,000).

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 and Compliance and Credit, and is subject to review by the Board Credit Committee or ALCO as appropriate.

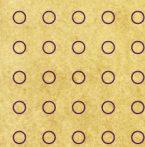
Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Microfinance bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations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

5. INTEREST INCOME

GROUP AND BANK	2020	2019
	Shs'000	Restated Shs'000
Loans and receivables	3,947,841	4,215,151
Short term bank deposits	95,276	137,748
Government securities	456,773	392,559
	4,499,890	4,745,458

6. INTEREST EXPENSE

GROUP AND BANK	2020	2019
	Shs'000	Shs'000
Savings Accounts	1,865,720	1,744,451
Borrowed Funds	370,078	510,240
Interest expense on lease liability	47,332	46,030
	2,283,130	2,300,721



Notes to the financial statements (Cont.)

7. FEES AND COMMISSIONS

	GROUP		BANK	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Registration fees	368	541	368	540
Loan set up fees	289,085	380,797	289,085	380,797
Commission (net)	117,748	164,928	81,720	133,083
Chattels mortgage fees	14,199	19,847	14,199	19,847
	421,400	566,113	385,372	534,267

8. OTHER OPERATING INCOME

	GROUP		BANK	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Bad debts recovered	26,302	32,502	26,302	32,503
Other income	7,714	5,137	2,965	830
	34,016	37,639	29,267	33,333



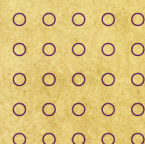
Notes to the financial statements (Cont.)

9. ADMINISTRATION AND OPERATING EXPENSES

	GROUP		BANK	
	2020	2019	2020	2019
	Shs '000	Shs '000	Shs '000	Shs '000
Staff costs (note 10)	908,152	915,502	902,578	908,785
Office operations and supplies	569,999	565,557	569,903	565,486
Training and evaluation	8,289	10,850	8,289	10,850
Office rent and repairs	21,957	8,673	21,957	8,673
Travelling expenses	29,057	33,262	29,057	33,263
Depreciation of property and equipment	130,957	131,589	130,890	131,494
Depreciation on right-of use-of asset	143,660	124,250	143,660	124,250
Audit fees	6,492	6,130	5,965	5,780
(Gain)/loss on disposal of motor vehicle	(857)	16,609	(857)	16,609
Amortisation of intangible assets	91,216	176,022	90,665	176,022
Directors' fees	13,230	14,734	12,270	14,032
Other expenses	217,475	99,566	216,103	96,191
Assets written off	25,050	30,217	25,050	30,217
Intangible assets written off	1,988	-	1,988	-
	2,166,665	2,132,961	2,157,518	2,121,652

10. STAFF COSTS

	GROUP		BANK	
	2020	2019	2020	2019
	Shs '000	Shs '000	Shs '000	Shs '000
Staff salaries and wages	712,510	680,650	706,936	673,933
Medical expenses	137,053	91,133	137,053	91,133
Defined contribution pension scheme	61,389	56,680	60,044	56,680
Statutory pension contribution (NSSF)	-	1,081	1,345	1,081
Recruitment	2,824	1,367	2,824	1,367
Staff welfare & entertainment	5,323	6,257	5,323	6,257
Staff bonus	(26,736)	80,348	(26,736)	80,348
Leave charge/(provision)	9,993	(5,570)	9,993	(5,570)
Staff welfare-other	5,796	3,556	5,796	3,556
	908,152	915,502	902,578	908,785



Notes to the financial statements (Cont.)

11 a) IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
At 1 January	2,312,208	2,288,191	2,311,760	2,286,639
Additional Provision during the year	954,132	354,662	952,075	355,766
Loans Written off during the year	(96,275)	(330,645)	(96,275)	(330,645)
At 31 December	3,170,065	2,312,208	3,167,560	2,311,760

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

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
Loans to customers	3,121,778	2,266,068	3,121,778	2,266,068
Cash balances with Central Bank of Kenya	33	34	33	34
Balances due from banks and financial institutions	78	-	78	-
Short term deposits banks	2,026	1,047	2,026	1,047
Government securities	24,579	30,662	24,579	30,662
Other assets	21,571	14,397	19,066	13,949
	3,170,065	2,312,208	3,167,560	2,311,760



Notes to the financial statements (Cont.)

12 TAXATION

a) Taxation (credit)/charge

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
Current tax expense				
Based on the adjusted profit for the year at 25% (2019 - 30%)	119,668	186,189	114,908	178,773
Prior year under provision of current tax	2,418	-	2,418	-
Share of associate company taxation (note 18)	970	692	970	692
Current tax expense	123,056	186,881	118,296	179,465
Deferred tax credit (note 19)	(251,734)	(9,982)	(251,494)	(10,310)
Prior under provision of deferred tax asset (note 19)	56,344	(5)	56,344	-
Tax credit/(charge)	(72,334)	176,894	(76,854)	169,115

b) Reconciliation of expected tax based on accounting profit to tax charge

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
Accounting profit before taxation	446,417	564,438	(475,990)	538,491
Tax at the applicable rate of 25% (2019 - 30%)	(111,604)	169,331	(118,998)	161,547
Tax effect of expenses not deductible for tax purposes	21,459	6,876	24,272	6,876
Prior year under provision of current tax	2,418	-	2,418	-
Prior year over/under provision of deferred tax asset (note 19)	56,344	(5)	56,344	-
Effect of deferred tax computed at 30%	(41,921)	-	(41,860)	-
Share of associate company taxation (note 18)	970	692	970	692
Tax credit/(charge)	(72,334)	176,894	(76,854)	169,115

Notes to the financial statements (Cont.)

c) Tax payable / (recoverable)

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
At 1 January	(162,337)	(288,053)	(164,649)	(289,354)
Charge for the year	119,668	186,189	114,908	178,733
Prior year under provision of current tax	2,418	-	2,418	-
Paid in the year	(294,528)	(60,473)	(290,170)	(54,028)
At 31 December	(334,779)	(162,337)	(337,493)	(164,649)
Tax recoverable	(337,493)	(164,649)	(337,493)	(164,649)
Tax payable	2,714	2,312	-	-
	(334,779)	(162,337)	(337,493)	(164,649)

13. SHORT TERM DEPOSITS WITH BANKS

GROUP AND BANK	2020	2019
Amortized cost	Shs '000	Shs '000
The Co-operative Bank of Kenya Limited	200,803	101,556
Kenya Commercial Bank PLC	202,455	503,089
Equity Bank PLC	202,178	-
Absa Bank Kenya PLC	-	201,573
Stanbic Bank Kenya Limited	505,731	438,817
Diamond Trust Bank	98,692	-
Family Bank Limited	186,666	-
SBM Bank Limited	57,543	122,170
	1,454,068	1,367,205
Less: allowance for credit losses (Note (11(b)))	(2,026)	(1,047)
	1,452,042	1,366,158

Effective interest rate average 5.9% in 2020 and 7.2% in 2019. All the deposits except those held by SBM Bank mature within 90 days from the balance sheet date.

Notes to the financial statements (Cont.)

14. CASH BALANCES WITH CENTRAL BANK OF KENYA

GROUP AND BANK	2020	2019
	Shs '000	Shs '000
Gross Cash reserve requirement	1,419,935	1,019,137
Less: allowance for credit losses (Note (11(b)))	(33)	(34)
	1,419,902	1,019,103

As at 31 December 2020, the cash ratio requirement was 5.25% (2019: 5.25%) of eligible deposits. These funds are not available for the day to day operations of the Bank and are non-interest bearing.

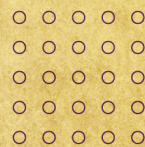
15. LOANS TO CUSTOMERS

GROUP AND BANK	2020	2019
	Shs '000	Shs '000
Gross loans to customers	19,554,098	20,567,494
Interest receivable from loans and advances to customers	1,128,842	933,145
Less: allowance for credit losses (Note (11(b)))	(3,121,778)	(2,266,068)
	17,561,162	19,234,571

The effective interest rate on customer advances at 31 December 2020 was 19.5% (2019 – 20.4%). Advances to customers are secured by cash collaterals (note 22) and chattels mortgages. Other forms of collateral include land, buildings, and motor vehicles.

16. GOVERNMENT SECURITIES

GROUP AND BANK	2020	2019
	Shs '000	Shs '000
Treasury bonds - Amortised cost		
Maturing within 1 year	-	1,496,092
Maturing between 1 and 3 years	-	300,000
Maturing over 3 years	2,459,364	1,800,000
	2,459,364	3,596,092
Treasury bills – Amortised cost	1,859,610	-
	4,318,974	3,596,092
Less: allowance for credit losses (Note (11(b)))	(24,579)	(30,622)
	4,294,395	3,565,470



Notes to the financial statements (Cont.)

16. GOVERNMENT SECURITIES (cont.)

The effective interest rate on government securities during the year ended 31 December 2020 was 10.6% (2019 – 14.4%)
Treasury bonds worth Shs 950 million (2019: Shs. 300 million) are pledged as security for the Absa Bank Kenya PLC, Standard Chartered Bank and Stanbic Bank borrowing shown on note 24.

17. OTHER ASSETS

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
Staff receivables	15,824	14,442	15,824	14,442
Prepaid expenses	189,866	96,265	189,866	96,265
Deposits and sundry receivables	197,679	57,580	195,344	56,187
Commission receivable	6,510	2,489	-	-
	409,879	170,776	401,034	166,894
Less: allowance for credit losses (note 11(b))	(21,571)	(14,397)	(19,066)	(13,949)
	388,308	156,379	381,968	152,945

18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY

(a) Investments in associate company

GROUP AND BANK	2020	2019
Faulu Advisory Services Limited:	Shs '000	Shs '000
At 1 January	53,039	51,424
Share of profit for the year	3,883	2,307
Share of taxation (note 12(a))	(970)	(692)
At 31 December	55,952	53,039

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

Notes to the financial statements (Cont.)

18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY (Cont.)

(a) Investments in associate company

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

	2020	2019
	Shs '000	Shs '000
Non-current assets	15,868	3,844
Current assets	128,266	25,045
	144,134	28,889
Current liabilities	(35,085)	(28,889)
Revenue	61,356	14,052
Profit from continuing operations before tax	17,257	9,229
Other comprehensive income		-
Total comprehensive income	17,257	9,229

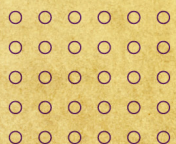
(b) Investments in Faulu Microfinance Bank Insurance Agency Limited

The group financial statements include the results of a subsidiary of Faulu Microfinance Bank Limited, Faulu Microfinance Insurance Agency Limited. The principal activity of the company is the provision of insurance agency services,

The subsidiary company's financial year-end is 31 December and are incorporated as limited liability companies. They are incorporated in Kenya under the Companies Act and domiciled in Kenya.

This subsidiary is 100% owned and fully controlled by the Bank. This investment is recognised at a cost of Shs. 5,000,000 (2019: Shs. 1,000,000) in the Bank's financial statements.

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



Notes to the financial statements (Cont.)

18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY (Cont.)

(b) Investments in Faulu Microfinance Bank Insurance Agency Limited (Continued)

The results and net assets of the subsidiary company are as outlined below:

Faulu Microfinance Bank Insurance Agency Limited

	2020	2019
	Shs '000	Shs '000
Summarised statement of financial position		
Total assets	81,780	67,627
Total liabilities	(4,200)	(19,286)
	77,580	48,341
Summarised statement of profit and loss and other comprehensive income		
Revenue	40,777	34,144
Profit before income tax	29,573	25,947
Income tax expense	(4,520)	(7,964)
Total comprehensive income for the year	25,053	17,983
Summarised statement of cash flows		
Net cash generated from operating activities	13,347	12,634
Net cash generated from investing activities	(4,235)	-
Net increase in cash and cash equivalents	9,112	12,634
Cash and cash equivalents at beginning of year	62,560	49,926
Cash and cash equivalents at end of year	71,672	62,560

Notes to the financial statements (Cont.)

19 DEFERRED TAX (ASSET)/ LIABILITY

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
The net deferred tax asset is attributable to the following items:				
Excess depreciation of capital allowances	115,678	131,510	115,678	131,503
Deferred tax on revaluation surplus	106,471	97,615	106,471	97,615
Right of use assets	102,502	136,160	102,502	136,160
Bonus provision	(2,779)	(24,104)	(2,779)	(24,104)
Provision for staff leave pay	(6,498)	(5,636)	(6,498)	(5,636)
Impairment loss allowance	(950,635)	(755,747)	(950,268)	(755,613)
Lease liabilities	(126,680)	(146,598)	(126,680)	(146,598)
Other temporary differences	(9,060)	(17,998)	(9,060)	(17,998)
	(771,001)	(584,798)	(770,634)	(584,671)
The movements in the deferred tax account during the year were as follows:				
At 1 January	(584,798)	(461,163)	(584,671)	(460,713)
Credit to profit or loss (note 11(a))	(251,734)	(123,630)	(251,494)	(123,958)
Charge to other comprehensive income	9,187	-	9,187	-
Prior year under provision of deferred tax asset	56,344	(5)	56,344	-
At 31 December	(771,001)	(584,798)	(770,634)	(584,671)



Notes to the financial statements (Cont.)

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 2019	405,000	25,308	161,455	171,362	1,622,532	81,210	2,466,867
Additions	-	19,753	17,416	21,854	10,549	24,355	93,927
Assets written off	-	-	(29,577)	(4,432)	(32,697)	(21,055)	(87,761)
Disposals	-	(5,000)	-	-	-	-	(5,000)
At 31 December 2019	405,000	40,061	149,294	188,784	1,600,384	84,510	2,468,033
At 1 January 2020	405,000	40,061	149,294	188,784	1,600,384	84,510	2,468,033
Additions	-	-	32,016	55,593	10,639	89,527	187,775
Transfer from WIP	-	-	73	-	26,908	(26,981)	-
Disposals	-	(3,437)	-	-	-	-	(3,437)
Assets written off	-	-	-	(1,514)	(36,961)	-	(38,475)
Revaluation surplus	30,624	-	-	-	-	-	30,624
At 31 December 2020	435,624	36,624	181,383	242,863	1,600,970	147,056	2,644,520
DEPRECIATION							
At 1 January 2019	6,302	20,476	128,642	105,646	791,139	-	1,052,205
Depreciation for the year	1,218	2,371	13,492	18,191	96,317	-	131,589
Eliminated on write off	-	-	(27,407)	(3,652)	(26,485)	-	(57,544)
Eliminated on disposals	-	(4,178)	-	-	-	-	(4,178)
At 31 December 2019	7,520	18,669	114,727	120,185	860,971	-	1,122,072
At 1 January 2020	7,520	18,669	114,727	120,185	860,971	-	1,122,072
Depreciation for the year	1,104	5,348	13,898	23,668	86,939	-	130,957
Eliminated on disposals	-	(3,437)	-	-	-	-	(3,437)
Eliminated on write off	-	-	-	(967)	(12,458)	-	(13,425)
At 31 December 2020	8,624	20,580	128,625	142,886	935,452	-	1,236,167
NET BOOK VALUE							
At 31 December 2020	427,000	16,044	52,758	99,977	665,518	147,056	1,408,353
At 31 December 2019	397,480	21,392	34,567	68,599	739,413	84,510	1,345,961

Notes to the financial statements (Cont.)

20. PROPERTY AND EQUIPMENT (Cont.)

Land and buildings were revalued at Shs. 427,000,000 as at 31 December 2020 by Gimco Limited, registered valuers.

At 31 December 2020, the net book value of the freehold land and building based on original cost was Shs. 47,457,584 (2019: Shs. 48,561,584).

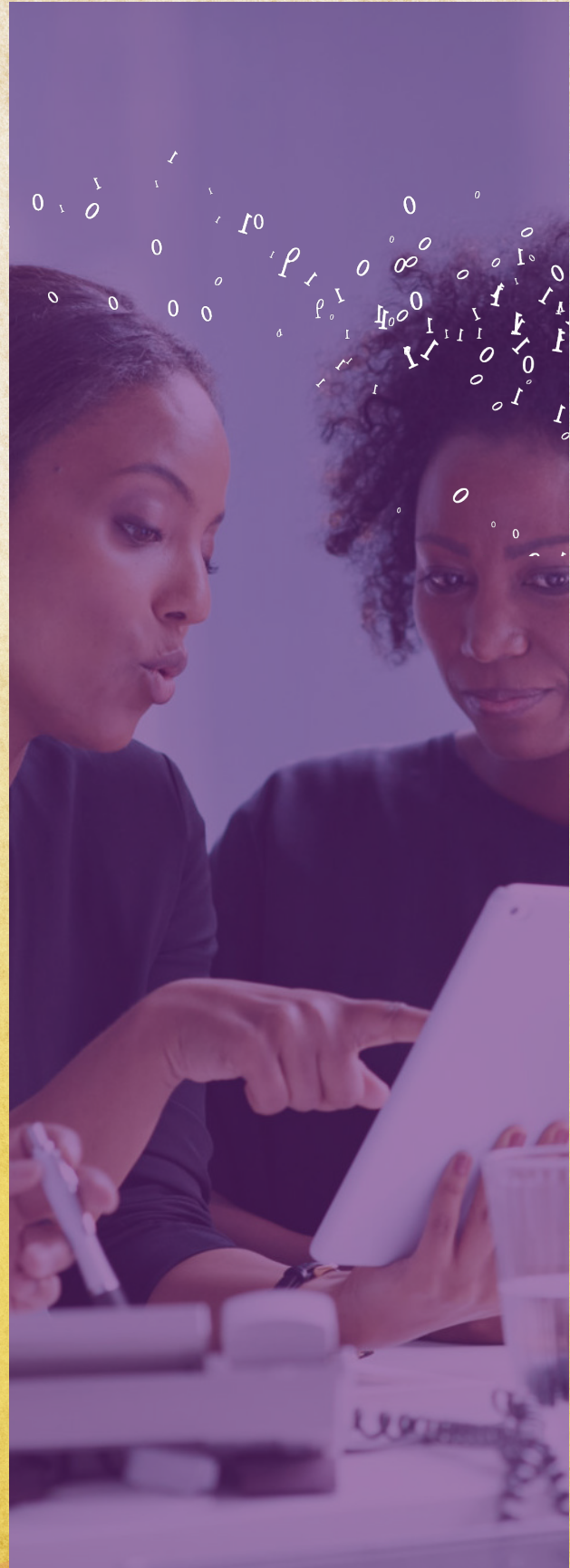
The Group property and equipment balance of Shs. 1,408,353,000 (2019: Shs. 1,345,961,000) includes the subsidiary's assets with a net book value of Shs. 330,000 (2019: Shs. 397,000).

During the year, management reviewed the working condition of the Bank's computers, and office equipment. This review resulted in the write off of assets whose total carrying value was Shs. 25,050,000 (2019: Shs. 30,217,000)

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

The company'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 company's freehold land and buildings as at 31 December 2020 were performed by Gimco Limited, registered and independent valuers (i.e. not related to the company). 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.



Notes to the financial statements (Cont.)

20. PROPERTY AND EQUIPMENT (Cont.)

Details of the company's freehold land and buildings and information about fair value hierarchy as at 31 December 2020 are as follows:

	Level 1	Level 2	Level 3	Fair value As at 31 December
	Shs'000	Shs'000	Shs'000	Shs'000
31 December 2020				
Land	-	370,000	-	370,000
Building	-	-	57,000	57,000
31 December 2019				
Land	-	350,000	-	350,000
Building	-	-	55,000	55,000

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

21. INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
COST				
At 1 January	1,346,759	1,335,886	1,346,759	1,335,886
Additions	11,418	10,873	4,235	10,873
Assets written off	(3,355)	-	(3,355)	-
At 31 December	1,354,822	1,346,759	1,347,639	1,346,759
AMORTISATION				
At 1 January	634,347	458,325	634,347	458,325
Charge for the year	91,216	176,022	90,665	176,022
Eliminated on write off	(1,367)	-	(1,367)	-
At 31 December	724,196	634,347	723,645	634,347
NET BOOK VALUE				
At 31 December	630,626	712,412	623,994	712,412

Notes to the financial statements (Cont.)

22. RIGHT-OF-USE ASSET

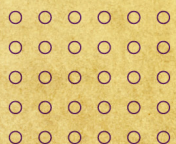
The Bank leases office space for its use. Information about the leases in which the Bank is a lessee is presented below:

GROUP AND BANK	2020	2019
	Shs '000	Shs '000
COST		
At 1 January	578,117	578,117
Additions	44,872	-
Lease terminations	(15,979)	-
At 31 December	607,010	578,117
ACCUMULATED DEPRECIATION		
At 1 January	124,250	-
Charge for the year	143,660	124,250
Eliminated on lease terminations	(2,574)	-
At 31 December	265,336	124,250
NET BOOK VALUE	341,674	453,867
Amounts recognised in profit or loss		
Depreciation expense on right-of-use assets	143,660	124,250
Interest expense on lease liabilities	47,332	46,030
Gain on termination of leases	(1,138)	-
Expense relating to short term leases	-	-
Expenses relating to leases of low value assets	-	-
	189,854	170,280

22. RIGHT-OF-USE ASSET (Cont.)

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. 144,052,940 (2019: Shs. 135,490,000). There are no restrictions or covenants imposed by lessors and the Group did not enter into any sale and leaseback transactions during the year (2019: Nil).



Notes to the financial statements (Cont.)

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	2020	2019
	Shs '000	Shs '000
0 - 30 days	373,538	438,362
31 - 90 days	14,488	21,301
91 - 180 days	16,122	9,715
Over 180 days	73,885	21,685
	478,033	491,063

24. CUSTOMER DEPOSITS

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
Savings account	2,559,657	2,527,583	2,559,657	2,542,143
Fixed account	19,827,212	17,163,610	19,893,651	17,211,610
	22,386,869	19,691,193	22,453,308	19,753,753

The effective interest rate on customer deposits as at 31 December 2020 is 10.3% p.a (2019: 10.7% p.a).

25. BORROWINGS

GROUP AND BANK	2020	2019
	Shs '000	Shs '000
Loans:		
Standard Chartered Bank Kenya Limited	-	111,111
Symbiotics SA	402,658	1,015,141
European Investment Bank	-	236,600
Oiko	300,000	450,000
IFAD	78,523	117,784
Absa Bank Kenya PLC	236,111	435,639
Stanbic Bank Kenya Limited	1,000,000	2,000,000
	2,017,292	4,366,275

Notes to the financial statements (Cont.)

25. BORROWINGS (Cont.)

GROUP AND BANK	2020 Shs '000	2019 Shs '000
The borrowings are repayable as follows:		
Within 1 year	1,730,808	1,256,944
After 1 year within 3 years	286,484	3,109,331
	2,017,292	4,366,275

During the year, the Bank negotiated additional facilities of Shs 750 Million from Absa Bank Kenya PLC. The facility included (i) a Shs. 250 Million term with interest pegged to the Central Bank Rate (CBR) plus a margin of 2.75% repayable on a monthly basis for a term of 36 months; and (ii) a Shs 500 Million short-term revolving credit facility and interest rate of CBR rate + 2.00% margin. The short term revolving credit facility has a maximum repayment period of 12 months, principal and interest amortized quarterly. The facility is secured by government securities as disclosed in note 16.

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

Shs. 1 Billion Stanbic Bank term secured loan is subject to a floating rate interest charged at CBR plus a margin of 2.5%. Interest on the facility is payable quarterly with a bullet principal payment due in May 2021. The facility is secured by government securities as disclosed in note 16.

The Symbiotics unsecured term loan facilities are subject to fixed interest charged at 11.5% for the 202 million facility and 12.00% for the Shs 200 million facility. Interest is payable on a quarterly basis with a bullet payment of principal due in March and May 2021 respectively.

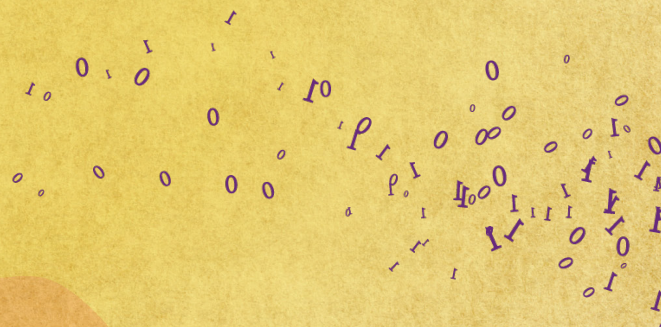
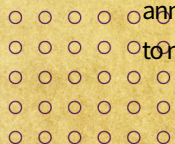
The Oiko Credit unsecured term loan facility is subject to interest charged at the prevailing 91 days treasury bill rate plus a margin of 2.00%. The minimum rate is pegged at 10.00%. Interest on the facility is payable on a quarterly basis with an annual repayment of the principal balances. The facility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

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.

Breach of covenants

Faulu Microfinance Bank Limited has existing covenants with its lenders which requires the Bank 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 and therefore no breaches existed as at 31 December 2020.

The Bank engaged the lenders of the affected facilities communicating the key actions and initiatives being pursued, including planned recapitalization of the business.



Notes to the financial statements (Cont.)

26. OTHER LIABILITIES

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
Accrued expenses	184,983	176,691	184,983	171,189
Staff leave provision	21,660	18,785	21,660	18,785
Bonus provision	9,263	80,348	9,263	80,348
Sundry liabilities	754,370	591,439	752,884	583,751
	970,276	867,263	968,790	854,073

27. LEASE LIABILITIES

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

GROUP AND BANK	2020 Shs '000	2019 Shs '000
At 1 January 2020	488,659	578,117
Additions	44,872	-
Leases terminated	(14,543)	-
Interest on lease liabilities	47,332	46,032
Payment of lease liabilities	(144,053)	(135,490)
At 31 December 2020	422,267	488,659

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

GROUP AND BANK	2020 Shs '000	2019 Shs '000
Year 1	156,436	145,221
Year 2	166,203	144,626
Year 3	165,077	125,503
Year 4	133,866	90,990
Year 5	56,327	52,647
Onwards	30,069	20,928
	707,978	579,915
Unearned interest	(285,711)	(91,256)
	422,267	488,659

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.

Notes to the financial statements (Cont.)

28. SHARE CAPITAL

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
Authorised:				
60,000,000 ordinary shares of Shs 10 each	600,000	600,000	600,000	600,000
Authorised, issued and fully paid:				
48,000,000 ordinary shares of Shs 10 each	480,000	480,000	480,000	480,000

29. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of profit before taxation to cash generated from operations

	GROUP		BANK	
	2020 Shs '000	2019 Restated Shs '000	2020 Shs '000	2019 Restated Shs '000
(Loss)/profit before taxation				
Adjustment for:	(446,417)	564,438	(475,990)	538,491
Depreciation on property and equipment	130,957	131,589	130,890	131,494
Depreciation on right-of-use assets	143,660	124,250	143,660	124,250
Amortisation of computer software	91,216	176,022	90,665	176,022
Write off of assets	25,050	30,217	25,050	30,217
Write off of intangible assets	1,988	-	1,988	-
Gain on disposal of a motor vehicle	(857)	(543)	(857)	(543)
Share of associate company's profit	(3,883)	(2,307)	(3,883)	(2,307)
Interest on lease liability	47,332	46,032	47,332	46,032
Gain on termination of leases	(1,138)	-	(1,138)	-
	(12,092)	1,069,698	(42,283)	1,043,656
Working capital changes:				
Decrease/(increase) in loans to customers	1,673,409	(2,013,677)	1,673,409	(2,013,677)
Net movement in related party balances	(8,714)	6,150	(4,553)	16,184
(Increase)/decrease in other assets	(231,929)	175,508	(229,023)	171,825
Decrease in cash collaterals held	(13,030)	(97,781)	(13,030)	(97,781)
Increase in customer deposits	2,695,676	1,800,151	2,699,555	1,812,785
Increase in other liabilities	103,013	95,575	114,717	96,187
Increase in government securities	(728,925)	(1,685,570)	(728,925)	(1,685,570)
(Increase)/decrease in cash reserve ratio-CBK	(400,799)	9,996	(400,799)	9,996
	3,076,609	(639,950)	3,069,068	(646,395)

Notes to the financial statements (Cont.)

29. NOTES TO THE STATEMENT OF CASH FLOWS (Cont.)

b) Analysis of the balances of cash and cash equivalents

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
Local currency cash	398,943	408,188	398,943	408,188
Balances due from banks and financial institutions	226,770	212,700	226,770	212,700
Short term deposits with banks (note 13)	1,452,042	1,366,158	1,452,042	1,366,158
	2,077,755	1,987,046	2,077,755	1,987,046

c) MOVEMENT IN BORROWINGS

GROUP AND BANK	2020 Shs '000	2019 Shs '000
At 1 January	4,366,275	4,430,520
Received in the year	750,000	1,889,657
Paid in the year	(3,098,983)	(1,953,902)
At 31 December	2,017,292	4,366,275

30. RELATED PARTY TRANSACTIONS

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 Holdings Limited is the principal shareholder of Faulu Microfinance Bank Limited. UAP Life Assurance Limited, Old Mutual Investment Group, UAP Insurance Company Limited, Old Mutual Life Assurance Limited South Africa are entities within Old Mutual Group.

Old Mutual Holdings Limited, Faulu Kenya Trust and Food for the Hungry Association (FH) are shareholders in Faulu Microfinance Bank Limited.

Faulu Microfinance Bank Limited, Faulu Advisory Services Limited and Faulu Kenya Trust are also related by virtue of common control.

Notes to the financial statements (Cont.)

	GROUP		BANK	
	2020 Shs '000	2019 Shs '000	2020 Shs '000	2019 Shs '000
a) Due from related parties:				
UAP Holdings Limited	-	27,169	-	27,169
Faulu MFB Insurance Agency Limited	-	-	-	2,489
UAP Life Assurance Limited-Kenya	192	-	192	-
Old Mutual Investment Group	192	-	192	-
UAP Insurance Company Limited	193	-	193	-
	577	27,169	577	29,658
b) Due to related parties:				
UAP Insurance Limited	-	(8,236)	-	(8,236)
Old Mutual Life Assurance Limited	-	(57,173)	-	(57,173)
UAP Holdings Limited	(4,182)	-	(4,182)	-
Faulu MFB Insurance Agency Limited	-	-	(1,672)	-
Old Mutual Life Assurance Limited	(40)	-	(40)	-
Old Mutual Life Assurance Limited-South Africa	(25,881)	-	(25,881)	-
	(30,103)	(65,409)	(31,775)	(65,409)

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers. Amounts not settled as at the end of each reporting period in respect of transactions with related parties are disclosed under note 29.

Deposits are made in the Bank by directors and companies associated to directors. Advances to customers at 31 December 2020 include advances and loans to staff and directors as indicated below:

GROUP AND BANK	2020 Shs '000	2019 Shs '000
(c) Advances to customers:		
- Directors	31,231	39,561
- Employees	467,529	343,335
	498,760	382,896
(d) Customer deposits:		
- Directors	96,756	17,727
- Employees	59,169	190,653
	155,925	208,380
(e) Related party transactions		
Group recharges from Old Mutual Holdings Limited	43,177	87,726

Notes to the financial statements (Cont.)

30. RELATED PARTY TRANSACTIONS (Cont.)

GROUP AND BANK	2020 Shs '000	2019 Shs '000
Key management compensation		
The remuneration of directors and other members of key management during the year were as follows:		
Salaries and other benefits	208,727	210,703
Directors' remuneration		
Fees for services as directors	12,270	14,409
Average Number of Employees		
Senior management	11	11
Number of staff	544	547
Total employees	555	558

31. CONTINGENT LIABILITIES

The company is a defendant in various legal suits with an estimated liability of Shs 97.6 million (2019 - Shs 95.2 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.

32. CAPITAL COMMITMENTS

The company had commitments worth Shs. 230 million. (2019: Shs. 104 million).

33. SHAREHOLDING STRUCTURE

The shareholding structure is analysed as follows:

	No of Shares	% of Holding
Old Mutual Holdings Limited	32,160,000	67%
Micsha Capital Limited	3,840,000	8%
Food for the Hungry Association	4,800,000	10%
The Faulu Kenya Trust	7,200,000	15%
	48,000,000	100%

Notes to the financial statements (Cont.)

34. PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to correction of the following interest income recognition errors:

- Interest receivables:** Following reconciliations of the interest receivables balances in the current year, it was determined that certain adjustments that the Bank had made to account for timing differences in the years ended 31 December 2017 and 31 December 2018 had been incorrectly carried forward in the subsequent years. Correction of the errors led to the reduction in the interest income for the years ended 31 December 2017 and 31 December 2018 by Shs. 783,559,000 and an increase in the interest income for the year ended 31 December 2019 by Shs. 82,019,000.
- Interest on stage 3 loans to customers:** The Bank previously recognised interest income on stage 3 facilities on a gross basis instead of on a net basis as required under IFRS 9. The overall impact of the error was a reduction in the interest income for the year ended 31 December 2019 by Shs. 206,948,000 and a corresponding reduction in the impairment loss on loans and receivables of the same amount. The adjustment did not have an impact on the loss for the year.

The impact of the above adjustments as well as the tax consequences on the statement of profit or loss and other comprehensive income and the statement of financial position for the respective periods is detailed below:

a) Restatement of audited statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	GROUP			BANK		
	As previously reported	Prior year adjustment	As restated	As previously reported	Prior year adjustment	As restated
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Interest income	4,870,387	(124,929)	4,745,458	4,870,387	(124,929)	4,745,458
Impairment losses on loans and receivables	(561,610)	206,948	(354,662)	(562,714)	206,948	(355,766)
Income tax expense	(152,288)	24,606	(176,894)	(144,509)	24,606	(169,115)
Loss for the year	330,131	57,413	387,544	311,963	57,413	387,544

b) Restatement of audited statement of financial position as at 1 January 2019

	GROUP			BANK		
	As previously reported	Prior year adjustment	As restated	As previously reported	Prior year adjustment	As restated
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
ASSETS						
Loans to customers	17,973,688	(752,794)	17,220,894	17,973,688	(752,794)	17,220,894
Tax recoverable	167,935	121,419	289,354	167,935	121,419	289,354
Deferred tax asset	461,163	113,648	574,811	460,713	113,648	574,361
LIABILITIES						
Other liabilities	740,923	30,765	771,688	727,121	30,765	757,886
EQUITY						
Accumulated deficit	(142,025)	(548,492)	(690,517)	(171,384)	(548,492)	(719,876)

Notes to the financial statements (Cont.)

34. PRIOR YEAR ADJUSTMENTS (Cont.)

c) Restatement of audited statement of financial position as at 31 December 2019

	GROUP			BANK		
	As previously reported	Prior year adjustment	As restated	As previously reported	Prior year adjustment	As restated
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
ASSETS						
Loans to customers	19,776,742	(542,171)	19,234,571	19,776,742	(542,171)	19,234,571
Tax (payable)/recoverable	(48,124)	210,461	162,337	(45,812)	210,461	164,649
LIABILITIES						
Customer deposits	19,538,740	152,453	19,691,193	19,601,300	152,453	19,753,753
Other liabilities	860,347	6,916	867,263	847,157	6,916	854,073
EQUITY						
Retained earnings /(accumulated deficit)	188,957	(491,079)	(302,122)	141,430	(491,079)	(349,649)

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 Holdings Limited, a company incorporated and domiciled in Kenya under the Companies Act. The ultimate holding company is Old Mutual Plc. which is incorporated in South Africa.

37. INCORPORATION

Faulu Microfinance Bank Limited is domiciled and incorporated in Kenya under the Companies Act, 2015.

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).



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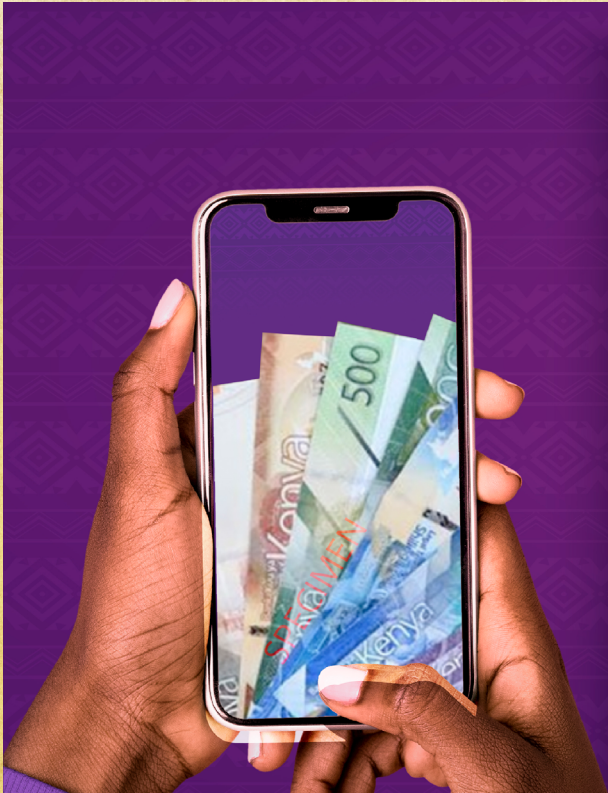
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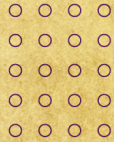
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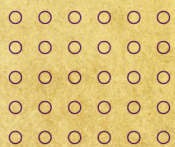


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