

2023 ANNUAL REPORT



Faulu 

A MEMBER OF THE  **OLDMUTUAL** GROUP

Unlocking Potential, Empowering Growth

OVERVIEW

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**Wakenya
Tufaulu**





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About the Report

Faulu Microfinance Bank Annual Report and Financial Statement 2023 provides a balanced and comprehensive view of the company's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed. The report covers the period from 1 January 2023 to 31 December 2023, and its goal is to provide our stakeholders with a complete and integrated view of how we operate.

The Annual Financial Statements were prepared following the International Financial Reporting Standards (IFRS). The report is part of our commitment to being transparent and accountable to all our stakeholders, and it further speaks of our commitment to continuously build on the trust that our stakeholders have bestowed on us.

Detailed financial results and other information is available on our website www.faulukenya.com to supplement the disclosures in this report. As a financial service provider, we play an important role in the economic life of individuals, businesses, and nations, supporting the socio-economic welfare of our people. We consider our stakeholders through all our activities as we pursue our ambition to impact society and deliver shareholder value positively.

Ernst & Young LLP audited Faulu Microfinance Bank's financial statements

Who We Are

Faulu Microfinance Bank is a limited liability company, a subsidiary of the Old Mutual East Africa Group. It has a strong heritage of over 30 years and has been recognized as the leading Microfinance bank in Kenya. The bank is regulated by the Central Bank of Kenya, a member of the Kenya Bankers' Association (KBA) and the Association of Microfinance Institutions (AMFI).



Our Purpose

Championing Mutually Positive Futures Everyday

Vision Values



Our 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.



Our Values



Champion the Customer



Respect for each other & Communities we serve



Trust & Accountability



The Power of Diversity and Inclusion



The Lordship of Jesus Christ



Always Act with Integrity



Agile Innovation that makes a Difference

Faulu at a Glance



Our Milestones

A rich history of transforming lives for over 30 years



32

Counties across Kenya



**KES
14Bn**
Loan Book



476

Employees (2022: 948)



266,160

Customers (2022: 200,000)



47

Banking outlets (2022: 56)



127,673

Digital Banking Registered
Customers (2022: 103,526)

1992

Faulu is born as a Micro Lending program in Mathare slums – Capital KES 600,000

1999

A Limited Liability Company is formed conducting MFI business

2005

Faulu launched the first successful Micro-finance bond in Africa through NSE – KES 500M

2006

Partners with Safaricom to pilot M-PESA

2009

Converts to a Deposit Taking Micro-finance. Faulu was the first DTM to be licensed by CBK.

2011

Launches deposit mobilization strategy, branded FAIDA increasing deposits by 393% in 2013

**2013
2014**

Converts to a Microfinance Bank – Act avails full commercial bank offering

2014

Recapitalization with KES 2.7B with Old Mutual acquiring 67% stake

2022

Launch of a Digital App dubbed Faulu Digicash App

2022

Lunched new contactless card with 3D security features

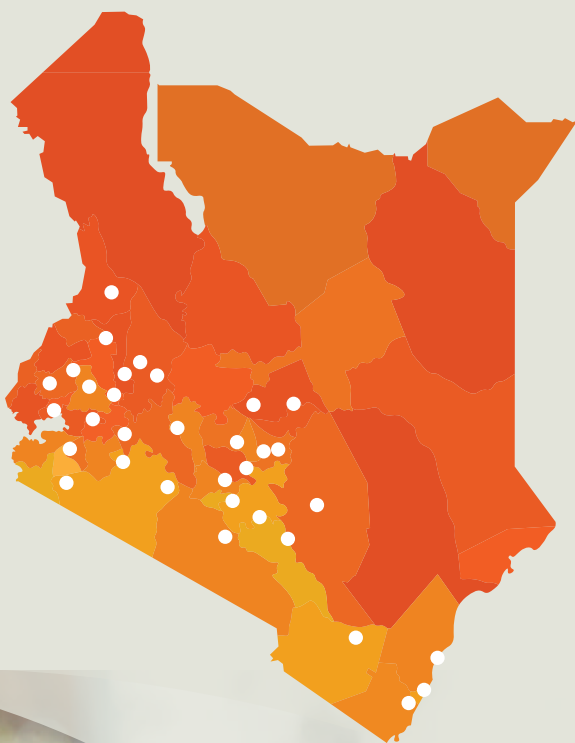
2023

Launched Digital solutions : Internet Banking & Host to Host solution





Our Presence



Nairobi Region

- Githurai
- Kariobangi
- Kawangware
- Kayole
- Kimathi Street
- Ngong Road
- OTC
- Rongai

Central Rift

- Bomet
- Kericho
- Litein
- Molo
- Naivasha
- Nakuru
- Narok
- Nyahururu

Nyanza Rift

- Homabay
- Kakamega
- Kisumu
- Migori
- Mumias
- Ugunja

Western Region

- Bungoma
- Busia
- Eldoret
- Kabarnet
- Kapenguria
- Kimilili
- Kitale

Coast Region

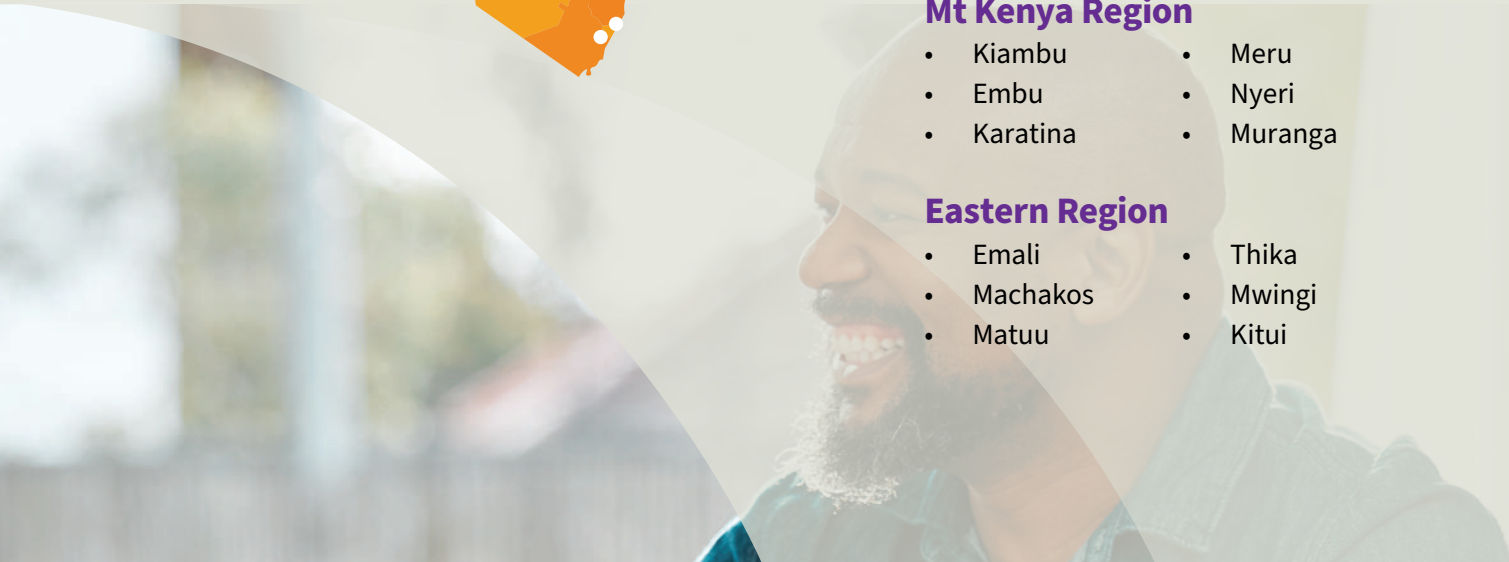
- Changamwe
- Kengeleni
- Kilifi
- Moi Avenue
- Ukunda
- Voi

Mt Kenya Region

- Kiambu
- Embu
- Karatina
- Meru
- Nyeri
- Muranga

Eastern Region

- Emali
- Machakos
- Matuu
- Thika
- Mwingi
- Kitui



Our Business Structure

We provide a diverse array of financial products and services through three customer-focused segments to cater to our clients' needs

01

Products & Services

02

Serving

03

CVPs



SME Banking



Community Banking



Retail Banking



Bancassurance



Treasury

8

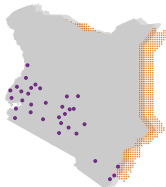
Banking is now easier than ever with our alternative transaction banking.



24hr
Customer Care



Host to Host Banking



32 branches and ATMs countrywide
 —
Over 500 Faulu Agents countrywide



Access the Best Foreign Currency Exchange rates in town



Pay with your Visa 3D Secure Debit Card conveniently and safely



Easy. Affordable. Instant.



e Faulu banking
 Easy access to your finances.

Faulu



A MEMBER OF THE OLD MUTUAL GROUP



No load is too heavy with
our **trade finance solutions.**

SMS the word '**SME**' to **22506**

#WaKenyaTufaulu

Corporate Information

Board of Directors

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

Audit Committee

Sophia Mukoba
Peter J. Mogan*
Caroline Gathii

Innovations and Technology Committee

Njeri Ndehi
Kenneth Kariuki
Michael Monari

Risk and Compliance Committee

Caroline Gathii
Sophia Mukoba
Peter Mogan*

Remuneration and Nominations Committee

George A. Maina
Sophia Mukoba
Arthur Oginga

Credit Committee

Michael Monari
Kenneth Kariuki
Samuel Matsekete**

Registered office

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

Company Secretary

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

Principal Banker

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

Auditors

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

Principal Lawyers

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

| Board of Directors



1



2



3



4



5



6



7



8



9



10

1. **George A. Maina**
Non-Executive
Director, Chairman

2. **Arthur Oginga**
Non-Executive
Director

3. **Sophia Mukoba**
Non-Executive
Director

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

5. **Michael Monari**
Non-Executive
Director

6. **Njeri Ndehi**
Non-Executive
Director

7. **Samuel Matsekete**
Non-Executive
Director

8. **Kenneth Kariuki**
Non-Executive
Director

9. **Caroline Gathii**
Non-Executive
Director

10. **Julius Ouma**
Ag. Chief Executive
Officer

Board Experience

George Maina



Qualifications

- Bachelor of Technology: Loughborough University in the UK

Skills & Experiences

- Director AIB Capital
- Director ICEA Lion Life
- Held senior positions for over 30 years in the corporate world
- He worked for a major global oil company at senior levels in Kenya, Caribbean and Central America, West Africa and East Africa including at Africa level
- Expertise in leadership, strategic development and implementation, governance, organization development/re-engineering and capacity building, change management, risk management, finance and investment management, mergers, acquisitions and exits, HR, sales and marketing, citizenship and stakeholder management, as well as investment banking.

Arthur Oginga



Qualifications

- Bachelor of Arts (Economics and Sociology): University of Nairobi

Skills & Experiences

- Member of the Institute of Certified Public Accountants Kenya (ICPAK)
- Member of the Institute of Certified Public Accountants Uganda (ICPAU)
- Directorship at various Old Mutual Group subsidiaries
- Directorship at FDH Bank
- He is the Group Chief Executive Officer (GCEO) Old Mutual East Africa
- He has over 25 years' experience in executive and leadership positions including serving as the Group Chief operations Officer and Group Chief Financial Officer, for the Old Mutual Rest of Africa business and the Acting Group Chief Financial Officer for Old Mutual Group
- He has served in various senior leadership positions within the financial services sector across Africa.

Samuel Matsekete



Qualifications

- Master of Business Leadership: University of South Africa
- Bachelor of Accountancy (Honors Degree): University of Zimbabwe
- Leadership development program by Barclays Plc in conjunction with Duke University

Skills & Experiences

- Chartered Accountant
- Member of the Institute of Bankers (Zimbabwe)
- He was the Managing Director of First Capital Bank (previously Barclays Bank of Zimbabwe Limited) leading the transition of the bank from Barclays to First Capital
- He was part of the team that set up Old Mutual Asset Managers (now Old Mutual Investments Group) in Zimbabwe where he held roles of Operations Executive and Head of Portfolio Management
- Outside the financial services sector, Sam worked at Senior executive levels for entities in the manufacturing and mining sectors.

Caroline Gathii



Qualifications

- Masters of Financial Management
- Bachelor of Science in Accounting
- International Certification in Risk Management from Institute of Risk Management (IRM) in the United Kingdom
- Certified Public Accountant of Kenya

Skills & Experiences

- Member of the Institute of Certified Public Accountants Kenya (ICPAK)
- Member of the Institute of Human Resource Management (IHRM)
- Member of the Kenya Institute of Supplies and Management (KISM)
- She has over 25 years multi-sectoral and regional professional experience in governance, risk and financial management
- She has hands on experience in various sectors including manufacturing, education, health, hospitality, County Governments, Development partners, Not for profit among others
- She commenced her career at PwC, then moved to KPMG East Africa and then to European Union. She is currently managing a boutique risk advisory company, First Idea Consulting (FIC) Limited
- She is the current President of the Organization of Women in International Trade, OWIT Nairobi.

Kenneth Kariuki



Qualifications

- Masters of Business Administration: University of Indore
- Bachelor of Arts(Management): Bhopal University
- International Certification in Risk Management from Institute of Risk Management (IRM) in the United Kingdom
- Certified Public Accountant of Kenya

Skills & Experiences

- Member of Marketing Society of Kenya (MSK)
- Trainer at the International School of Advertising, a facilitator of topical discussions in marketing, strategy and related areas, and an influential speaker in matters brand and strategy
- He is a professional business, brands, and marketing strategist, with a robust career spanning over 25 years and has been involved in consulting and CEO advisory
- He is a partner at Brand Integrated Consulting, an award-winning brand and business strategy advisory firm with a footprint across Africa
- Prior to consulting for ambitious organizations, he managed notable brand portfolios from companies such as Nestle, Reckitt Benckiser and East African Breweries
- Name “Trainer of the Year” by the Chartered Institute of Marketing (CIM).

Michael Monari



Qualifications

- Master in Global Management: University of Salford, UK
- Alumni of the Said Business School – University of Oxford, UK’s Social Finance Programme and Strathmore Business School, ISBI Programme

Skills & Experiences

- Member – Chartered Institute of Bankers (ACIB) the UK
- Member- Institute of Directors, Kenya, Nigeria & Uganda
- Member – Kenya Institute of Management.
- President of The Rotary Club of Lavington
- He is currently the Chief Executive Officer of Longitude Finance, Kenya. He is an experienced Corporate Executive of over 25 years’ experience mainly in banking
- He has worked for several leading corporation in Africa’s financial services sector, including with the KCB Group, Credit Bank Plc, and Ecobank Group. Internationally he worked with International Trust Bank Plc. in Nigeria, African Management Services Company (AMSCO) Ghana, and lately with Ecobank Group in Togo, Ghana, Malawi, Kenya and Uganda.

Njeri Ndehi



Qualifications

- Masters in Banking and Finance Law: The London School of Economics
- Bachelor of Law: University of Warwick

Skills & Experiences

- She has over 11 years of professional experience in banking and finance
- She has worked for Citibank Kenya and South Africa. At Citibank South Africa, she worked in Corporate Finance where she was involved in syndicated loan transactions, euro loans and club deals
- She has several years of experience in relationship management in Absa Kenya and Stanbic Bank. In addition to working in the financial sectors she has over 10 years' experience in the educational sector
- Njeri is professionally trained in leadership, coaching, relationship management, selling, credit and corporate governance. She has served in boards across industries such as Finance, Education and Real Estate.

Sophia Mukoba



Qualifications

- Masters of Business Administration: University of Nairobi
- Bachelor of Commerce (Accounting): University of Nairobi
- Certified Public Accountant (Kenya)

Skills & Experiences

- Member of the Chartered Institute of Management Accountants (CIMA)
- She is a seasoned finance professional with over 18 years' experience spanning across Audit, Control Management, Accounting and Commercial Finance
- She has held several senior Finance roles and is currently the Finance Director for Unilever Africa. Prior to joining Unilever, she worked at British American Tobacco Kenya Limited and Deloitte & Touche.

Peter Morgan



Skills & Experiences

- He has for the past 37 years been active as a lawyer, businessman and mediator in BC and Ontario
- His experience as an entrepreneur has led to an approach that is practical; finding legal solutions that make business sense. This practical approach, combined with a relational style, is brought to business negotiations
- He has extensive experience facilitating leadership development, strategic planning, conflict management and community building workshops for business, government, and not-for-profit organizations on six different continents
- He serves as a director or corporate secretary to the boards of several BC companies as well as several charities. He is also actively involved with Global Mothers, a social enterprise targeting poverty alleviation in the developing world through trade.

Julius Ouma



Qualifications

- Completing Master of Business Administration: University of Nairobi
- Bachelor of Commerce (Finance): Strathmore University

Skills & Experiences

- He is currently acting as the Chief Executive Officer at Faulu MicroFinance Bank
- He has over 15 years of extensive experience in financial services, communication, and manufacturing industries
- He handled over eight different roles in Finance, Strategy and Project Management
- He previously worked at EABL as Head of Business Performance and Strategy, at Barclays Plc as Head of Finance for Retail and Business banking, Finance Director at Multichoice Kenya among other key roles.



Start Small, Earn Big

INVEST NOW

Start your investment journey effortlessly with **Faulu Money Market Fund**

All you need is to **open a Faulu Bank Account** if you don't have one already. To open an account dial ***339#** or download the **Faulu Digicash App** on playstore or Appstore.

Once you do, step towards your financial freedom in 3 simple steps;



Visit our downloads sections on www.faulukenya.com



Download & fill the Individual / Corporate / Joint MMF form



Once filled, send the complete form to info@faulukenya.com



Earn interest on your savings.



Min Top-Up Amount
KES 1,000



Access your cash anytime - It's your money!



Get monthly statements to track your progress.

For more information: Email info@faulukenya.com or Call (+254) 711 074 000

Past performance is not necessarily a guide to future investment performance.
Faulu Money Market Fund is regulated by the Capital Markets Authority and managed by Old Mutual Investments Group.

MMF

Senior Management



1. **Julius Ouma**
Ag. Chief Executive
Officer

2. **James Murage**
Head of Legal

3. **May Nyaga**
Head of Human
Capital

4. **Emily Mose**
Head of Internal
Audit

5. **Paul Githinji**
Head of Operations
and Customer
Experience

6. **Robert Ng'ang'a**
Head of Credit

7. **Justus Kittony**
Head of Business
Growth &
Bancassurance

8. **Maureen Mbori**
Head of Treasury
and Institutional
Banking

9. **Fridah Mutua**
Head of Marketing
Research and Product
Development

Management Experience



Julius Ouma

Ag. Chief Executive Officer

Qualifications

- Completing Master of Business Administration: University of Nairobi
- Bachelor of Commerce (Finance): Strathmore University

Skills & Experiences

- He is currently acting as the Chief Executive Officer at Faulu MicroFinance Bank
- He has over 15 years of extensive experience in financial services, communication, and manufacturing industries
- He handled over eight different roles in Finance, Strategy and Project Management
- He previously worked at EABL as Head of Business Performance and Strategy, at Barclays Plc as Head of Finance for Retail and Business banking, Finance Director at Multichoice Kenya among other key roles.



May Nyaga

Head of Human Capital

Qualifications

- Masters of Science (Human Resource Management): University of Nairobi
- Bachelor of Commerce in Finance
- Certified Professional Coach
- Certified Genos Emotional Intelligence Practitioner
- ISO9001:2015 Lead Auditor

Skills & Experiences

- Fellow of the Institute of Human Resource Management
- 15 years of progressive experience in Human Resource management across multiple sectors, including G4S, Rentokil Initial (K) Ltd, Rafiki Microfinance Bank and Letshego Kenya Ltd
- Expertise in developing strategic Human Resource frameworks aligned with business strategies to drive growth, productivity and employee engagement
- Created HR departments at Rentokil Initial (K) Ltd and Rafiki Microfinance Bank
- Developed the Group Talent Management Strategy at Letshego Holdings Ltd, overseeing HR functions across 11 subsidiaries in East, West and South Africa
- Frequent contributor to the Daily Nation and an experienced panelist/moderator in local and international conferences.



Emily N. Mose

Head of Internal Audit

Qualifications

- Completing Master of Business Administration: University of Nairobi
- Bachelor of Science in Computer Science from Jomo Kenyatta University of Agriculture & Technology

Skills & Experiences

- Over 11 years of experience as a Certified Public Accountant (CPA), Internal Auditor (CIA), Information Systems Auditor (CISA), Ethical Hacker (CEH)
- Extensive experience supporting banks, insurers and telecommunication companies
- Former Internal Audit Manager (IT) at Old Mutual Holdings East Africa
- Previous roles with Family Bank, Cooperative Bank, Diamond Trust Bank and Ernst & Young LLP
- Expertise in leadership, change management and innovation
- Significant contributions to enhancing internal control environments and improving operational and strategic efficiency at various organizations.



Paul K. Githinji

Head of Operations and Customer Experience

Qualifications

- Master's in Business Administration: University of Nairobi
- Bachelor of Commerce (Accounting Option): University of Nairobi
- Certificate in Program for Management Development, Strathmore Business School

Skills & Experiences

- Over 19 years of experience in Branch Operations, Central Operations, Customer Experience, Internal Controls, Business Process Innovation and project execution
- Former Senior Manager Operations at Equity Bank Ltd, involved in Transaction Processing, Project Management (CBS Upgrade), Branch Support and COO's office
- Played a key role in the digitization journey and rollout of systems to enhance efficiency at Equity Bank
- Experience includes various branch roles, culminating in Branch Manager at Ridgeways Branch
- Extensive background in improving operational efficiency and customer experience.



Justus K. Kittony

**Head of Business Growth
& Bancassurance**

Qualifications

- Masters of Arts(Economics) : University of Nairobi
- Bachelor of Arts: University of Nairobi

Skills & Experiences

- Justus is responsible for the overall development and execution of the bank's strategy. He oversees the strategic direction for SME, Community, Digital Banking, Retail, Bancassurance segments, and Branch Network
- Justus joined the bank from Family Bank Kenya Limited where he served as the Regional Manager - Business Development.
- Prior to this, he held various roles including, Head of SME Banking and Ag. Chief Retail Banking Officer (Family Bank), General Manager-Business (Access Bank Kenya, PLC), Senior Financial and Business Advisory Consultant (Co-operative Bank) among others
- He has over 20 years of experience in Banking providing strategic leadership in Business Development
- He has undertaken several trainings including Transformational Leadership from Daystar University, Strategic Leadership and Coaching from Strathmore University and SME Business Training from Tom Lawton (UK).



Robert W. Ng'ang'a

Head of Credit

Qualifications

- Completing Masters of Science(Entrepreneurship) : Jomo Kenyatta University of Agriculture & Technology
- Bachelor of Arts(Economics): Kenyatta University
- Ceritifed Public Accountant

Skills & Experiences

- His career spans over 19 years in the banking and financial industry, having spent the last 12 years in senior management roles
- Robert has key competencies in Credit Analysis, Credit Risk, Portfolio Management and Reporting, Retail Banking and Risk Management
- He is a transformational and thought leader in debt and business structuring
- He has previously served as Chief Credit officer at Family Bank, Chief of Credit at IDB Capital, Assistant General Manager Credit at Chase bank (now SBM), Head of Credit Analysis at Fina Bank(Now GT bank), Snr Manager Credit at Credit Bank.



James Murage

Head of Legal

Qualifications

- Bachelor of Laws (LLB): University of Nairobi
- Certified Public Secretary (CPS)

Skills & Experiences

- Advocate of the High Court of Kenya with over 14 years of post-qualification experience
- Extensive legal experience in Banking and Corporate Law
- Former Head of Legal at Civicon Limited, Jamii Bora Bank (now Kingdom Bank PLC), and Senior Legal Officer at CBA (now NCBA PLC)
- Over 10 years as an in-house counsel in various industries



Fridah Mutua

**Head of Marketing
Research and Product
Development**

Qualifications

- Master of Business Administration in Marketing: University of Nairobi
- Bachelor of Arts in Communication: University of Nairobi

Skills & Experiences

- Over 10 years of experience at Faulu Microfinance Bank, currently serving as Head of Marketing, Communications and Research
- Expertise in strategic thinking, developing market-led brand and communication strategies
- Professional certifications include Marketing Master Class from Africa Brand Leadership Academy, Applied Research from Strathmore University, and STATA certification for Data Science Software, Statistical Package for Social Scientists



Maureen Mbori

**Head of Treasury and
Institutional Banking**

Qualifications

- Master of Business Administration in Strategic Management
- Bachelor of Science in Information Technology

Skills & Experiences

- ACI Certified with over 10 years of experience in the banking
- Current Head of Treasury, Institutional Banking and Partnerships at Faulu Bank
- Previous roles include Fixed Income & Money Market Dealer at National Bank, Asset and Liability Officer at Eco-Bank Kenya, Fixed Income & Money Market Dealer at NIC Bank and Treasury Officer at I&M Bank
- Expertise in managing treasury functions, including Portfolio Management, Financial Risk Management, Liquidity Risk Management and Investment Income analysis
- Proven track record in debt acquisition, diversification of treasury products and growth of the bank's balance sheet size.



Faulu



A MEMBER OF THE OLD MUTUAL GROUP



**Unlock
Kshs.6M
in 12 hours.**

SMS the word **'SME'** to **22506**

#WaKenyaTufaulu





George
Maina

Chairman's Statement

On behalf of the Board, I am pleased to present Faulu Microfinance Bank Limited (the “Bank”) 2023 Annual Report and Financial Statements for the year ended 31 December 2023. The financial statements include consolidated financial statements of the Bank and its subsidiary (together, the “Group”).

The financial year to 31 December 2023 has been characterised by a very challenging macroeconomic environment. An increasingly volatile and uncertain global and in-country operating environment, meant that business leaders across the world were faced by tough decisions to ensure the best outcomes for their shareholders, employees and the societies they serve.

The highest global debt levels, combined with elevated interest rates, meant that most countries did not have the financial resources to ease the socio-economic challenges that they faced. Increasing social unrest was an ever-looming threat as societal expectations failed and the rising cost of living and debt push households into a survival mindset. These global trends translated into a very difficult year for Kenyan households as the cost of living soared and interest rates increased.

Financial performance

The Group recorded a loss before tax of Shs 689 million in 2023 compared to a profit of Shs 15 million in 2022, while the Bank posted a loss of Shs 719 million in 2023 compared to a loss of Shs 13.9 million in 2022. The group impaired deferred tax asset held of Shs 719 million to close at an after-tax loss of Shs 1.4 billion.

The gross loan book reduced by 8.5% from Shs 16.1 billion in 2022 to Shs. 14.7 billion in 2023.

This decline in the loan book resulted to a reduction in interest income by 17%. The bank has continued to manage its deposit book in order to reduce the cost of funding as the interest rate risk increased in the industry. Interest expense on deposits and borrowings marginally increased from Shs 1.26 billion in 2022 to Shs 1.49 billion in 2023.

Total Group's assets decreased by 10% to Shs 20.5 billion in December 2023 compared to Shs 22.7 billion in 2022 mainly

attributable to decrease in Gross loans and advances. The decrease in loans and advances to customers is mainly attributable to low disbursements during the year due to high interest rates.

Also contributing to the lower disbursements was the derisking from risky sectors with high non-performing loans.

The effects of Finance Act 2023 continue to be felt by the bank as majority of the retail customers were negatively impacted by the increase and traders who were impacted by devaluation of the Kenyan currency.

Group's customer deposit declined by 3% from Shs 16.1 billion in 2022 to Shs 15.6 billion in 2023. Decline largely

attributed to Bank's strategy to optimise the balance sheet and manage cost of funding.

Operating Environment

Kenya's economic performance strengthened in 2023 despite continued challenges, with GDP growth increasing from 4.8% in 2022 to an estimated 5% in 2023. This is according to the 28th edition of Kenya Economic Update (KEU) which adds that the improved growth performance is attributed to a strong rebound in agriculture sector in 2023 which had faced a persistent and severe drought as well as a moderate growth in the services sector.

The recovery of agriculture has led to improvements in food

supply coupled with monetary policy tightening which has helped reduce inflationary pressures. In 2023, tourism continued to expand, credit to the private sector improved and manufacturing activity is expected to improve from the anticipated growth in agro-processing sector.

The economy however still faces several challenges to sustain its growth momentum such as heightened fiscal and external vulnerabilities manifested through high public debt, elevated cost of living, exchange rate pressures, global economic uncertainties, and tight global financial conditions.

Inflation Rate

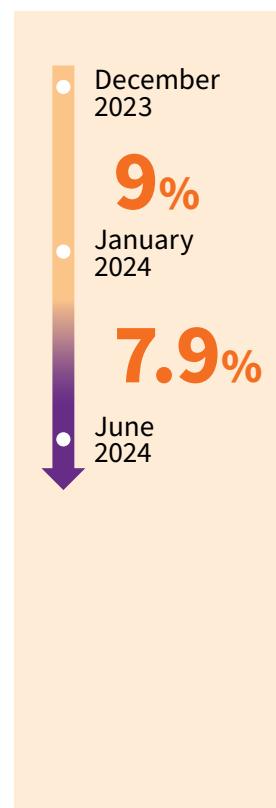


In December 2023 Kenya's inflation rate was recorded at 6.6%, a decrease from 9% in January and 7.9% in June. Inflation is expected to decrease to approximately 5.6 percent in 2024. This declining trajectory is supported by enhanced weather conditions boosting agricultural output, a reduction in global oil prices and stabilisation and reduced volatility of the Kenyan shilling against major currencies.



Interest Rates in the industry

The Monetary Policy Committee (MPC) retained the central bank rate at 12.5%, sighting the tightening of monetary policy in June to tame inflation. Interest rates have seen significant increases over the last one year with the 91-day treasury bill rates getting to a high of 16%.





Currency Performance and outlook

The Kenyan Shilling has faced challenges due to the country high external debt position, diminishing foreign exchange reserves and a robust US dollar strengthened by US monetary tightening. The shilling closed at a record 156 against the dollar in December 2023. This had a negative impact to business as the country is a net importer.



Industry Non-Performing Loans

CBK credit survey report indicated that the asset quality measured by gross nonperforming to gross loans ratio closed at 14.8% in December 2023 representing a deterioration by 150 basis points from 13.3% in 2022. This was due to a higher increase in gross non-performing loans in the industry. Despite this decline in the industry, the banks absolute non-performing loans improved during the year by 21.5%.



Regulatory changes

- i. On 7 February 2023, Kenya's Cabinet Secretary, National Treasury & Planning issued the Tax Procedures (Common Reporting Standards) Regulations, 2023 (the Regulations). The CRS Regulations prescribe guidelines for the reporting by both financial and non-financial entities as designated.
- ii. One such change is the introduction of a Housing Levy, which requires both employers and employees to contribute to the National Housing Development Fund at the rate of 1.5% for each.
- iii. Another significant change is the introduction of new PAYE tax bands. The Act has adopted a new tax band of 32.5% for income between Shs 500,000 and Shs 800,000 and 35% for income exceeding Shs 800,000.
- iv. The increase in VAT on petroleum products (excluding LPG gas) from 8% to 16% impacted the cost of living due to its Inflationary effects in all sectors of the economy.
- v. Amendment to withholding tax remittance to the Kenya Revenue Authority within a 5-day period from the date of payment.



Outlook

The International Monetary Fund (IMF) expects the world economy to grow at no more than 3.0% in 2024. Advanced economies i.e. the United States, the Euro area, Japan, the United Kingdom, and Canada are forecast to experience tepid growth at 1.4% in 2024. But many emerging economies should see higher growth on the back of strong consumer demand, increased productivity and improving trade balances.

The Bank plan for the year 2024 is to return to profitability through:

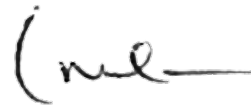
- Continued digital transformation by enhancing the digital culture, Digital mobile App, Fin tech partnerships and leveraging on data and analytics.
- Integrating the bank fully within the Old mutual group ecosystem through Integrated Financial Services (IFS).
- Deliver value to the customer by continuously reviewing customer value proposition.
- Leverage on the support from the main shareholder, Old mutual group, for capital and technical support.

Acknowledgement

I would like to thank our shareholders for the confidence and support, the board for their continued commitment, diligence and advice to the business and the entire executive management and staff for their relentless effort and commitment to grow the business, provide exceptional service to our customers and building the Faulu brand to be a stronger and a leading financial institution in its niche sector.

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 would like to pay tribute to our the regulator, the Central Bank of Kenya, for their support and guidance and other government agencies who continue to provide an enabling business environment that fosters growth in the financial industry.



George A. Maina
Chairman of the board.



Faulu
A MEMBER OF THE OLD MUTUAL GROUP

SCHOOL BUS

SCHOOL VAN

BOOST YOUR BIZ
Upgrade from a
school van to a school bus.
SMS the word **ASSET FINANCE** to **22506**

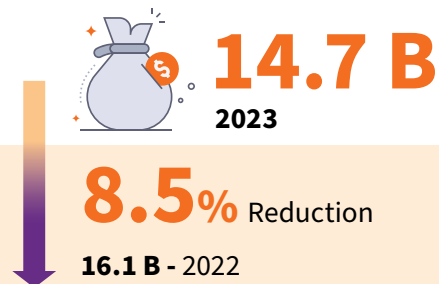
**Julius
Ouma**



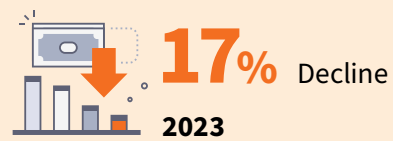
Managing Director's Statement

2023 was a transformative yet challenging year for Faulu Microfinance Bank, as we navigated through a tough macroeconomic environment both locally and globally.

Loan Book



Interest Income



The rising costs of living, coupled with increased interest rates and significant global economic volatility, put substantial pressure on Kenyan households, businesses, and financial institutions alike. These factors led to an 8.5% reduction in our loan book, bringing it down from KES 16.1 billion in 2022 to KES 14.7 billion in 2023. Consequently, we experienced a 17% decline in interest income, reflective of the reduced lending activity amid heightened risk in the market.

Despite these challenges, we remained resolute in our mission to deliver value to our customers and stakeholders. In response to the economic downturn, we took strategic measures to ensure our sustainability and long-term growth.

One of the key decisions was the optimization of our branch network, where we closed four branches and relocated one to a more strategic location, aligning with our vision to streamline operations and enhance efficiency. This move also reflected our commitment to a more digital future, as we expanded our digital banking solutions to better serve our customers, even in the most remote areas.

In March 2023, we introduced a new hybrid term product that allows for quarterly interest payments, designed specifically to support working capital needs for both corporate and individual clients. This product has been well received, and we see it as a key component of our strategy to diversify our offerings and deepen our engagement with customers.

Our financial performance in 2023 reflected the adverse macroeconomic conditions, with Faulu Bank posting a loss before tax of KES 719 million, compared to a restated loss of KES 13.9 million in 2022. While this is a significant challenge, it is important to note that our fundamentals remain strong. We have continued to manage our deposit book effectively, which has helped to contain the increase in interest expense to a marginal 19% year-on-year.

Looking ahead, we are cautiously optimistic about 2024. We are committed to returning to profitability by focusing on several key areas. First, we will continue to drive digital transformation across all customer touchpoints, enhancing our mobile and internet banking platforms, and exploring partnerships with fintechs to leverage data and analytics for better customer experiences. Second, we will fully integrate Faulu into the broader Old Mutual ecosystem, aligning our services with the group's Integrated Financial Services (IFS) approach. This will enable us to offer more comprehensive solutions to our customers while benefiting from the expertise and capital support of our parent company.

In addition, we are committed to further improving our customer value proposition by continuously refining our product offerings and expanding our reach through innovative distribution channels. We will also leverage our strong relationship with Old Mutual to ensure we have the necessary resources to navigate the challenging economic landscape and emerge stronger.

Loss Before Tax



2022 **13.9 M**

2023 **719 M**



Contained Interest Expense to a marginal

19%

I want to take this opportunity to express my deepest gratitude to our shareholders for their continued trust, our Board of Directors for their unwavering guidance, and our dedicated employees who work tirelessly to serve our customers. Your commitment and resilience have been instrumental in positioning Faulu for future success. I also extend my thanks to our customers for their loyalty and confidence in Faulu, and to the Central Bank of Kenya and other regulators for their ongoing support in creating an enabling environment for growth in the financial services sector.

In conclusion, we recognize that the road ahead will not be without challenges, but we are confident that with the right strategies, a focus on innovation, and a customer-first approach, Faulu Microfinance Bank will continue to empower individuals and businesses across Kenya, unlocking potential and driving growth for the future.

Julius Ouma
Acting Chief Executive Office.

Faulu



A MEMBER OF THE OLD MUTUAL GROUP



Fixed Deposit Account.

Save Small and Earn Big on your Deposits

SMS the word **'SME'** to **22506**


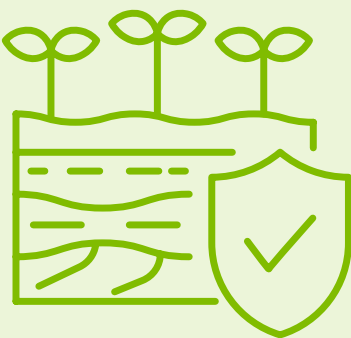







#WaKenyaTufaulu

Our Sustainability Report

ESG Report

Our sustainability report covers our approach and policies for ESG initiatives for the financial year 2023. Our approach to ESG is guided by our victory condition - becoming our customers' first choice to sustain, grow and protect their prosperity.

Year in Brief

ENVIRONMENT	SOCIAL	GOVERNANCE
<p>Our commitment to responsible environmental practices, specifically related to climate change</p>	<p>Our commitment to our key stakeholders: Customers Communities Employees Investors Intermediaries Regulators</p>	<p>Our commitment to good corporate governance and ethical leadership</p>
<p>60 hectares have been rehabilitated with an 80% survival rate at the Aberdare National Park</p>  	<p>Old Mutual Learn.Think.Do pilot program has benefited:</p> <ul style="list-style-type: none"> 36 schools, 120 teachers, and over 2,000 junior secondary school learners 88% Employee Succession Cover achieved 84% Uptake of online courses from staff 84% overall staff retention 4-month maternity and 1-month paternity leave Customer growth of 1.89 million in 2023 from 1.69 million in 2022    	<p>80% Successful automation of our key processes</p>  <p>Score achievement of:</p> <ul style="list-style-type: none"> 3.4 COBIT Standards 3.9 NIST Standards  

Environment

Through the Old Mutual Foundation the Group partnered with the Kenya Wildlife Service in rehabilitating the salient sector of the Aberdare National Park with 50,000 seedlings planted in the sector so far.

Currently 60 hectares have been rehabilitated with an 80% survival rate of the seedlings since the

inception of the partnership in 2016.

Additionally, Old Mutual contributed Kshs 1.7M towards the 2023 National Tree Planting Day activities, which involved planting trees in various regions. These efforts are a testament to Old Mutual's commitment towards sustainability and environmental conservation.

50,000



No. of seedlings planted in Aberdare National Park

Kshs 1.7M



Old Mutual's contribution towards 2023 National Tree Planting Day

Social

Financial Education

Financial Education is a key initiative driving empowerment in the communities we operate. Old Mutual is committed to equip junior and senior secondary school teachers with the necessary financial literacy skills to effectively implement mainstream Financial literacy concepts in the Kenyan curriculum. The project in partnership Kenya Institute of Curriculum Development (KICD) and financial sector regulators began in 2021 and it has successfully developed financial literacy matrices and guidelines, as well as a financial literacy orientation course for teachers in 2022.

The pilot phase of the program which kicked off

in 2023 was conducted in five counties in Kenya, namely Uasin Gishu, Kiambu, Laikipia, Makueni, and Siaya. Each county had representation from various school types, including public boarding schools, rural public schools, public pre-urban school, and private schools. The pilot program has benefited 36 schools, 120 teachers, and over 2,000 junior secondary school learners.

The Old Mutual Foundation has also successfully expanded its financial education campaigns and increased its outreach to university students. In the past year, the foundation reached approximately 10,000 students across 21 universities compared to 5,700 in the previous year.

10,000



No. of students reached in financial education campaigns across 21 universities.

Customers

Treating customers fairly is imperative for us as an organization as our purpose is transforming lives and enabling financial goals by keeping our promise of being our customers' first choice to sustain, grow and protect their prosperity.

Our customer numbers grew to 1.89 million in 2023 from 1.69 million in 2022. Our Net Promoter Score (NPS) and Net Effort Score (NES) scores in 2023 were 48% and 46% respectively compared to 47%

and 32% in 2022 which reflects our commitment to continually deliver exceptional experience to our customers, intermediaries, and partners.

The average needs met per customer was 1.41 in 2023 compared to 1.15 in 2022 which speaks to our integrated financial service model. With exceptional experience driven by innovation and customer-led product, service, and process enhancements we aim to raise our customer numbers to 2.3 million by 2026.

SDG goal The need



End poverty in all its forms everywhere



To invest in infrastructure and provide innovations to solve emerging needs and grow the economy



Take urgent action to combat climate change and its impacts



To improve access to technology and knowledge through sharing ideas and executing.

Our contribution

Through Faulu Bank and Old Mutual Foudation, the Group committed R3.5M to equip junior and senior secondary school teachers with the necessary financial literacy (FL) skills to effectively implement mainstream Financial literacy concepts in the Kenyan curriculum. The project in partnership Kenya Institute of Curriculum Development (KICD) and financial sector regulators began in 2021 and it has successfully developed financial literacy matrices and guidelines, as well as a financial literacy orientation course for teachers in 2022.

We have provided digital innovative banking solutions to meet customers at their point . We have invested in digital infrastructure to provide alternative channels for customers to enjoy banking services.

Through the Faulu Bank & Old Mutual Foundation the Group has partnered with the Kenya Wildlife Service in rehabilitating the salient sector of the Aberdare National Park with 50,000 seedlings planted in the sector so far. Currently 60 hectares have been rehabilitated with an 80% survival rate of the seedlings since the inception of the partnership in 2016.

Additionally, Faulu Bank & Old Mutual Foundation contributed Kshs 1.7M towards the 2023 National Tree Planting Day activities, which involved planting trees in various regions.

Our strategic partnerships are contributing to the growth of skills development and environment impact. They Include: Kenya Institute of Curriculum Development and Kenya Wildlife Service and notably the Nairobi Declaration on Sustainable Insurance (NDSI).

Our year in Pictures





Traders interactive sessions



All out show on teamwork during the Customer Service Week



Board and exco sessions



Ended the year with the CEO's Mission Statement event

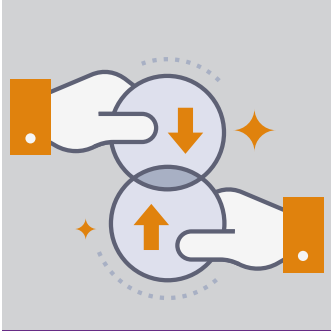




Faulu
Forex
Solutions. We go with you wherever your business takes you.

SMS the word **'SME'** to **22506**

#WaKenyaTufaulu



Report of the Directors

The Directors present their report together with the audited financial statements of Faulu Microfinance Bank Limited (the “Bank” or “Faulu”) and its subsidiary (together, the “Group”) for the year ended 31 December 2023, which disclose its situation in accordance with the requirements of the Kenyan Companies Act, 2015 and Microfinance Act, 2006.

PRINCIPAL ACTIVITIES

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

OPERATING RESULTS OF THE GROUP AND THE BANK FOR THE YEAR

	Group		Bank	
	2023 Shs ‘000	2022 Restated Shs ‘000	2023 Shs ‘000	2022 Restated Shs ‘000
Profit/(Loss) before tax	(688,623)	15,085	(719,309)	(13,903)
Income tax Expense	(730,710)	(316,469)	(720,716)	(306,954)
Profit/(Loss) for the year	(1,419,333)	(301,384)	(1,440,025)	(320,857)

Business Review

Global economic growth

In 2023, the World Bank foresaw a challenging global economic landscape, projecting a full percentage point decrease in growth from 2022, with a record low of 2.1%. However, the world witnessed remarkable resilience in the face of adversity. Despite considerable headwinds stemming from the war in Ukraine and the winter recession of 2022/2023, the global economy showcased its capacity to endure unforeseen challenges.

Remarkably, the anticipated recovery materialized, and by 2024, the global economic growth is set to rebounded slightly to 2.4%. A key contributing factor to this upturn is the notable deceleration observed in advanced economies. Moreover, the recovery was bolstered by the robust resilience displayed by the global economy, demonstrating its ability to withstand geopolitical uncertainties and economic downturns.

Crucially, the resurgence was also underpinned by positive developments, such as the strengthening of U.S. consumer spending. As the largest economy in the world, the United States played a pivotal role in revitalizing global economic prospects. Additionally, China's departure from its zero-COVID policy contributed to the overall positive momentum, fostering increased economic activity and trade.

In summary, the global economic landscape in 2023 faced challenges but showcased remarkable resilience and recovery. The interplay of various factors, including the global response to geopolitical events and shifts in economic policies, collectively shaped a narrative of adaptation and positive resurgence on the path to a more stable and thriving global economy in 2024.

Domestic economic growth

The World Bank has projected an encouraging growth

outlook for Kenya in 2024, anticipating a robust 5.3% expansion. This positive trajectory is attributed to a confluence of factors, including a surge in commodity prices, particularly in fuel, and the dynamics of interest rate risk. These elements collectively contribute to a favourable economic landscape, poised for sustainable growth.

In parallel, Fitch Ratings anticipates that African banks will encounter operating conditions in 2024 that are as challenging as those experienced in the preceding year. Despite this, the banking sector exhibits resilience across most countries, with a notable buffer provided by elevated commodity prices. While banks remain exposed to risks from both the domestic and global operating environments, their adaptability and robustness stand out in navigating these challenges.

Notably, Kenya's banking sector is undergoing a rapid digital transformation, witnessing a surge in the popularity of mobile banking services among the population. The national vision for 2030 has identified the microfinance subsector as pivotal in ensuring widespread financial inclusion. In alignment with this vision, the government has intensified its financial inclusion campaign, earmarking funds specifically for women and youth. Additionally, legislative frameworks have been developed to promote the growth of micro and small enterprises (MSMEs).

This multifaceted approach not only underscores Kenya's commitment to financial inclusion but also positions the banking sector as a catalyst for socio-economic development. As the nation embraces digital innovation and reinforces its support for MSMEs, it paves the way for a resilient and inclusive financial ecosystem, contributing significantly to the realization of broader economic goals.

Operating Environment

As of September 30, 2023, the dynamic Kenyan banking landscape boasted an array of financial players, including 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 10 Representative Offices of Foreign Banks, 74 Foreign Exchange Bureaus, 20 Money Remittance Providers, 3 Credit Reference Bureaus, and 32 Digital Credit Providers. Amidst this vibrant mix, the banking sector is gearing up for stability, navigating through challenges like operational and cyber risks. The scene predicts a robust yet vigilant sector, with operational risks expected to be on the higher side, particularly due to the surge in cyber threats.

In the short to medium term, the credit risk is set to maintain an elevated presence, underscoring the need for careful manoeuvring. As interest rates show an upward trend, the sector anticipates a notable uptick in interest rate risk. However, amidst these fluctuations, liquidity risk stands out as stable, providing a solid foundation for the sector's resilience. The Kenyan banking tapestry, with its diverse players and evolving challenges, promises an exciting journey ahead, with stability at its core despite the nuanced risks it navigates.

Microfinance Industry

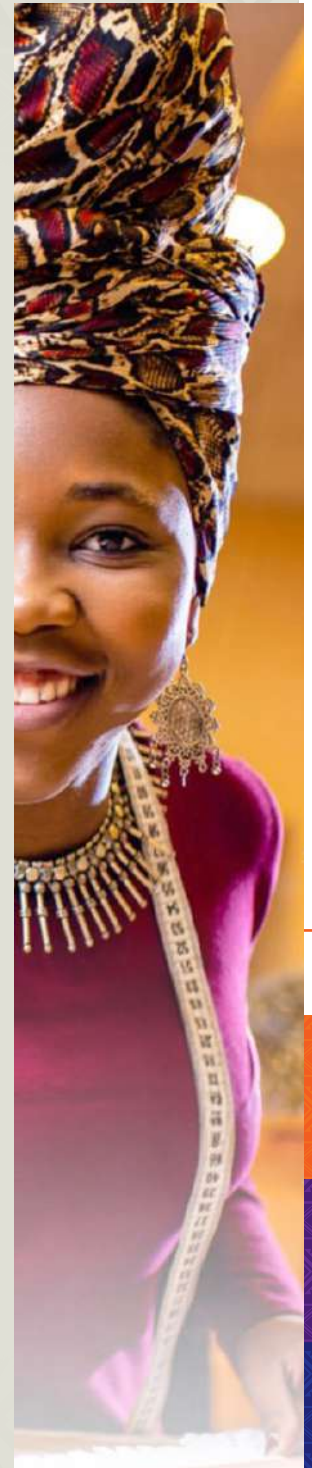
In September 2023, the Central Bank of Kenya released the Kenya Financial Sector Stability Report. It highlighted that microfinance banks, over the past five years, experienced a decrease in total assets, reaching Kes 70,427 Mn. Despite five years of losses, there was an improvement in 2022 with a loss of Kes 979 Mn, compared to the highest loss of Kes 2,875 Mn in 2020. This improvement is credited to a reduction in non-performing loans, decreasing from Kes 13,426 Mn in 2020 to Kes 12,501 Mn in 2022. The core capital also saw improvement, closing at Kes 6,478 Mn in December 2022 from Kes 5,821 Mn in 2020.

The microfinance sub sector continued to recover in 2023 as compared to 2022 performance, however it remained vulnerable to even most mild shock given its low buffers in key indicators. Only 4 of the total MFB's recorded profits; two recorded profits of Kes 17Mn each, one recorded profit of Kes. 36Mn and the last MFB in this category recorded Kes. 131Mn in profit.

Historical performance

In a recent publication (Issue No. 14, September 2023) by financial sector regulators, the driving forces behind the banking sector's profitability were illuminated. Predominantly, the robust performance is credited to interest generated from loans & advances and government securities. A noteworthy surge in other income is attributed to earnings from foreign denominated assets, painting a vivid picture of the industry's diverse revenue streams.

Faulu MFB stands at the forefront, strategically positioned to capitalize on the flourishing banking landscape. In 2023, the institution actively engaged in primary and secondary money markets, resulting in a substantial cumulative investment income of Kes. 446Mn, complementing the total interest income of Kes. 2,928Mn. Closing with a liquidity ratio of 30% and bolstered by gross customer deposits totalling Kes. 15,641Mn, the bank demonstrates a robust financial foundation.



The astute management, steering through the Product Development Committee and Asset and Liability Committee, embraced a risk-based pricing model. This strategic move, addressing highlighted interest rate risks, proved pivotal in preventing margin compression, ultimately recording an impressive average loan yield of 16.8%.

Further fortifying its position in the financial landscape, Faulu MFB was granted a license by the Central Bank of Kenya to conduct foreign exchange transactions. In 2023 alone, the bank traded volumes amounting to Kes. 5Bn. Aligned with its vision to transform into a trader's bank, Faulu embarked on an infrastructure overhaul, enhancing system capabilities. This initiative increased customer touchpoints, including the launch of internet banking and host-to-host solutions, complementing the already existing mobile app and USSD services.

In essence, Faulu MFB, acting as custodians of financial stability, goes beyond banking transactions. It becomes the guardian of clients' dreams, paving the way for growth and prosperity in an ever-evolving financial landscape.

Distribution and Branch Networks

The bank, a formidable financial entity, boasts an extensive network comprising 47 banking branches, 2 marketing offices, and a network of 388 appointed agents. This robust infrastructure is the backbone of seamless service delivery to a substantial customer base that now stands at an impressive 266,160 individuals. Notably, the bank has cultivated a diverse clientele, with a significant portion comprising civil servants, alongside those actively involved in retail commerce, service-oriented enterprises, agriculture, and manufacturing.

In response to evolving market dynamics and industry trends, where technology plays a pivotal role in enhancing efficiency and streamlining operational costs, the bank has proactively embraced technological advancements. Aligning with this commitment to innovation, the board made strategic decisions to optimize operational efficiency, including the prudent move to close four banking branches and relocate

another to a more strategic location. This forward-thinking approach reflects the bank's commitment to adaptability and responsiveness in the ever-changing landscape of financial services.

Products and Services

Faulu has a wide array of innovative products and services that meet our customer needs. The products and services range from savings accounts, term accounts, loans as well as bancassurance products. The bank introduced a hybrid term product in March 2023 that allows for quarterly interest payments to support in working capital needs for corporate and individuals with fixed term deposits.

Risk Management

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

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

Conclusion

We are optimistic that the operating environment will improve in 2024 as we continue to deliver impressive improvements in our profit growth anchored by strategic approach, revamped products, bancassurance solutions and launch of digital platform. This improvement is supported by robust foundation over the years, and it is upon this solid foundation that we launch into 2024 with great excitement.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year 2023 (2022: Nil).

DIRECTORS

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

AUDITOR

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

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

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

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

BY ORDER OF THE BOARD



James W. Murage
Company Secretary
Nairobi

March 2024



Vitabu bila Taabu





Corporate Governance Statement

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

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

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

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

Board, composition and appointments

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

As at 31 December 2023, the Board is comprised of nine (9) Directors all of whom are non-executive Directors .

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

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

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

Board responsibilities

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

- Approving and monitoring the implementation of the strategic plan and annual business plans including regular review of the 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 Chief Executive Officer.

Corporate Governance Statement (cont.)

Chairman and Chief Executive Officer

The roles and responsibilities of the Chairman of the Board and the Chief Executive Officer 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 Chief Executive Officer 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 2023, 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
George A. Maina	Chairman Non-Executive Director	7/7	100%
Sophia Mukoba	Non- Executive Director	7/7	100%
Njeri Ndehi	Non- Executive Director	5/7	71%
Peter J. Mogan	Non- Executive Director	4/6	66%
Samuel Matsekete	Non- Executive Director	5/7	71%
Michael Monari	Non- Executive Director	6/7	85%
Arthur Oginga	Non- Executive Director	5/7	71%
Kenneth Kariuki	Non- Executive Director	7/7	100%
Caroline Gathii	Non- Executive Director	7/7	100%

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	
Sophia Mukoba	100%
Peter Mogan	66%
Caroline Gathii	100%

The Risk Management Committee

The Board delegates the responsibility to ensure quality, integrity, and reliability of the Bank's risk management to the Board Risk Management Committee. The Committee met five (5) times in the year 2023 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.
- (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 meeting attendances during the year was as follows:

Membership During The Year	
Caroline Gathii	100%
Sophia Mukoba	100%
Peter Mogan	60%

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

Membership During The Year	
Michael Monari	100%
Kenneth Kariuki	100%
Samuel Matsekete	100%

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;

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

- (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	
George A. Maina	100%
Sophia Mukoba	100%
Arthur Oginga	80%

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	
Njeri Ndehi	80%
Kenneth Kariuki	100%
Michael Monari	100%

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.

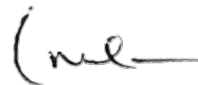
Single Borrower Limit

The institution did not extend loans exceeding 5% of its core capital to any single end-user borrower. The Board of Directors ensures that loans or credit facilities equivalent to the maximum limit are extended only to those borrowers who have the capacity or have an established track record of satisfactory repayment. The

Bank has well-defined credit policies and procedures covering the maximum lending limits and approval levels, rate to be charged, repayment period, loan tracking and collateral. The institution granted loans to 1 single end users that exceeded 2% of its core capital. The aggregate amount of loans was not more than 30% of the Bank's total loan portfolio.

KYC Requirements

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



George A. Maina
Chairman

March 2024



Julius Ouma Wamae
Ag Chief Executive Officer

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 2023 and signed on its behalf by:



George A. Maina
Chairman



Julius Ouma Wamae
Ag Chief Executive Officer



Ernst & Young, Certified Public Accountants (Kenya),
Kenya Re Towers, Off Ragati Road, P.O. Box 44286,
Nairobi 00100

Tel: +254 20 2886000www.ey.com

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 consolidated and separate financial statements of Faulu Microfinance Bank Kenya Limited (the "Bank") and its subsidiary (together with, the "Group"), set out on pages 20 - 89, which comprise the consolidated and separate statements of financial position as of 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial positions of the Group and the Company as at 31 December 2023 and the consolidated and separate financial performance and the consolidated and separate cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

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

Key Audit Matters

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



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

these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Expected Credit losses (ECL)

(See notes 1(v) and 11 of the consolidated and separate financial statements)

As disclosed in Note 3 (a), as at 31 December 2023, the Group had an allowance for expected credit losses on financial assets at amortised cost of Kshs 2.37 billion (2023: Kshs 3.15 billion). The expected credit losses are based on a forward-looking approach that recognises impairment loss allowances in accordance with IFRS 9 Financial Instruments. The estimation of expected credit losses requires the Bank to make significant judgements in the consideration of the following variables:

- Allocation of loan facilities due from customers to stages 1, 2 and 3 in accordance with IFRS 9 based on:
- Credit exposures for which there has been a significant increase in credit risk since initial recognition, and for which a loss allowance is recognized over the remaining life of the exposure (lifetime ECL); and
- Credit exposures for which there has been no significant increase in credit risk, and for which a loss allowance is recognized for default events that are

possible within the next 12-months (12-month ECL).

- Assessment of Probability of Default (PD) and Loss Given Default (LGD).
- Application of historical and forward-looking information, including macro-economic factors in the assessment of the PDs.
- Assessing and forecasting expected future cash flows from impaired (stage 3) loans and advances to customers and assessing the financial condition of the counterparty, estimated recoverable amounts and collateral realization.
- Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models.

We identified the audit of the expected credit losses as a key audit matter considering the significant size of the Bank's loan book and the high degree of estimation uncertainty due to significant judgements and assumptions applied in calculating ECL. The complexity of these estimates requires management to disclose the key judgments and the key inputs into the ECL computations. These disclosures include those in note 1(v) to the financial statements and the accounting policies in note 11.

How our audit addressed the key audit matter

Our audit procedures included, but were not limited to:

- Reviewing the accounting policies for compliance with IFRS 9 requirements.
- Reviewing the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9 requirements.

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

- Reviewing the allocation of loans and advances to customers to stages 1, 2 and 3 for compliance with IFRS 9, basing on the performance of the loans and the available information.
- Evaluating the assumptions made to factor expected future cash flows into the ECL computations, taking into account market conditions, and the post-reporting date performance of the loan facilities.
- Evaluated the reliability of data sources, including collateral valuation, used in the ECL calculations. This included auditing a sample of loan files to check, where appropriate, if the inputs agreed to the supporting documentation.
- We evaluated the adequacy of the Bank's disclosures in respect of the judgement and assumptions used in the valuation are in line with IFRS 9.

Other Matter

The consolidated and separate financial statements of Faulu Microfinance Bank Kenya Limited for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements in a report dated 31 March 2023.

Other Information included in the Group and Bank's 2023 Annual Report

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether consolidated and separate financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high

level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the

consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

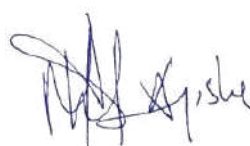
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

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



For and on behalf of Ernst & young LLP
Certified Public Accountants
Nairobi, Kenya
.....2024

Consolidated And Bank Statements Of Profit Or Loss And Other Comprehensive Income For The Year Ended 31 December 2023

	Note	Group		Bank	
		2023	2022	2023	2022
		Shs '000	Shs '000	Shs '000	Shs '000
Interest income calculated using the effective interest method	5	2,928,665	3,526,108	2,927,495	3,524,981
Interest expense calculated using the effective interest rate method	6	(1,616,502)	(1,570,645)	(1,626,963)	(1,575,695)
Net interest income		1,312,163	1,955,463	1,300,532	1,949,286
Fees and commissions Income	7(a)	407,380	521,565	366,513	476,313
Fee and commission expense	7(b)	(181,820)	(232,864)	(177,495)	(226,867)
*Foreign exchange gain		35,329	15,835	35,329	15,835
Other income	7(c)	374,604	35,146	374,604	35,146
Operating income	8	1,947,656	2,295,145	1,899,483	2,249,713
Administration and operating expenses	9	(2,346,105)	(2,489,485)	(2,331,132)	(2,473,410)
Impairment losses on loans and receivables	11(a)	(294,868)	205,569	(292,354)	205,938
Total operating Expenses		(2,640,973)	(2,283,916)	(2,623,486)	(2,267,472)
Net operating (loss) / Profit		(693,317)	11,229	(724,003)	(17,759)
Share of associate company's profit	18(a)	4,694	3,856	4,694	3,856

Consolidated And Bank Statements Of Profit Or Loss And Other Comprehensive Income For The Year Ended 31 December 2023 (cont.)

	Note	Group		Bank	
		2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
(Loss)/ Profit before tax		(688,623)	15,085	(719,309)	(13,903)
Taxation	12(a)	(730,146)	(316,469)	(720,716)	(306,954)
Loss for the year		(1,418,769)	(301,384)	(1,440,025)	(320,857)
Other comprehensive income				-	-
Items that will not be reclassified subsequently to profit or loss					-
Surplus on revaluation of buildings		-	5,000	-	5,000
Deferred tax liability arising on revaluation surplus		-	(250)	-	(250)
Other comprehensive income		-	4,750	-	4,750
Total comprehensive Income for the year		(1,418,769)	(296,634)	(1,440,025)	(316,107)

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

Consolidated And Bank Statements Of Financial Position

As At 31 December 2023

ASSETS	Note	GROUP		BANK	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022
		Shs '000	Shs '000	Shs '000	Shs '000
Local currency cash	29(b)	275,892	352,551	275,892	352,551
Balances due from banks and financial institutions	29(b)	292,133	430,610	292,133	430,610
Short term deposits with banks	13	147,475	-	147,475	-
Cash balances with Central Bank of Kenya	14	866,226	926,455	866,226	926,455
Loans to customers	15	12,384,123	12,974,662	12,384,123	12,974,662
Government securities	16	3,642,670	4,158,849	3,632,400	4,148,845
Other assets	17	633,557	591,724	625,402	584,544
Current tax assets	12(c)	377,755	340,535	365,816	328,979
Due from related companies	30(a)	1,100	1,054	11,050	8,574
Investment in associate companies	18(a)	64,159	60,873	64,159	60,873
Investment in a subsidiary		-	-	5,000	5,000
Deferred tax asset	19	1,707	720,116	-	719,309
Intangible assets	21	545,921	571,795	545,921	569,256
Right-of-use assets	22	159,807	334,285	159,807	334,285
Property and equipment	20	1,124,412	1,260,312	1,124,213	1,260,078
		-----	-----	-----	-----
TOTAL ASSETS		20,516,937	22,723,821	20,499,617	22,704,021
		=====	=====	=====	=====
LIABILITIES AND EQUITY					
LIABILITIES					
Cash collaterals	23	248,590	393,027	248,590	393,027
Customer deposits	24	15,385,603	15,742,106	15,508,555	15,856,491
Borrowings	25	1,495,000	1,265,338	1,495,000	1,265,338
Other liabilities	26	1,125,029	1,167,163	1,120,196	1,147,163

Consolidated And Bank Statements Of Financial Position

As At 31 December 2023 (cont.)

Due to related companies	30(b)	1,717	330,100	1,717	330,100
Lease liabilities	27	331,295	477,613	331,295	477,613
		-----	-----	-----	-----
		18,587,234	19,375,347	18,705,353	19,469,732
		-----	-----	-----	-----
EQUITY					
Share capital	28 (a)	659,996	659,996	659,996	659,996
Share premium	28 (b)	3,769,763	3,769,763	3,769,763	3,769,763
Accumulated losses		(2,780,123)	(1,361,352)	(2,915,562)	(1,475,537)
Revaluation surplus		280,067	280,067	280,067	280,067
		-----	-----	-----	-----
		1,929,703	3,348,474	1,794,264	3,234,289
		-----	-----	-----	-----
TOTAL LIABILITIES AND EQUITY		20,516,937	22,723,821	20,499,617	22,704,021
		=====	=====	=====	=====

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



George A. Maina
Chairman



Julius Ouma Wamae
Ag Chief Executive Officer
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

Michael Monari
Director



James W. Murage
Company Secretary

	GROUP				
	Share	Share	Accumulated	Revalua-	Total
	capital	premium	deficit	tion	
	Shs'000	Shs'000	Shs'000	Surplus	
Shs'000	Shs'000	Shs'000	Shs'000		
At 1 January 2022	659,996	3,769,763	(1,059,968)	275,317	3,645,108
Total comprehensive income for the year	-	-	(301,384)	-	(301,384)
Revaluation surplus	_____ -	_____ -	_____ -	<u>4,750</u>	<u>4,750</u>
As at 31 December 2022	<u>659,996</u>	<u>3,769,763</u>	<u>(1,361,352)</u>	<u>280,067</u>	<u>3,348,474</u>
At 1 January 2023	659,996	3,769,763	(1,361,352)	280,067	3,348,474
Total comprehensive income for the year	_____ -	_____ -	<u>(1,418,769)</u>	_____ -	<u>(1,418,769)</u>
As at 31 December 2023	<u>659,996</u>	<u>3,769,763</u>	<u>(2,780,121)</u>	<u>280,067</u>	<u>1,929,703</u>

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

Bank's Statements Of Changes In Equity

For The Year Ended 31 December 2023

BANK					
	Share capital Shs'000	Share premium Shs'000	Accumulated deficit Shs'000	Revaluation surplus Shs'000	Total Shs'000
At 1 January 2022	659,996	3,769,763	(1,154,680)	275,317	3,550,396
Total comprehensive income for the year	-	-	(406,668)	-	(406,668)
Revaluation surplus	-	-	-	4,750	4,750
As at 31 December 2022	659,996	3,769,763	(1,475,537)	280,067	3,234,289
At 1 January 2023	659,996	3,769,763	(1,475,537)	280,067	3,234,289
Total comprehensive income for the year	-	-	(1,440,025)	-	(1,440,025)
As at 31 December 2023	659,996	3,769,763	(2,915,562)	280,067	1,794,264

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

Statement Of Cash Flows

For The Year Ended 31 December 2023

	Note	Group		Bank	
		2023	2022	2023	2022
		Shs '000	Shs '000	Shs '000	Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	29(a)	(2,076,295)	(4,500,470)	(2,090,727)	(4,550,490)
Interest received		2,447,338	3,288,917	2,447,338	3,288,918
Interest paid		(1,312,503)	(1,292,346)	(1,308,107)	(1,292,346)
Tax paid	12(c)	(46,873)	(57,221)	(36,837)	(44,704)
		-----	-----	-----	-----
Net cash utilized in operating activities		(988,333)	(2,561,120)	(988,333)	(2,598,622)
		-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property and equipment		706	43,511	706	43,511
Purchases of investment securities		(150,000)	(1,100,000)	(150,000)	(1,100,000)
Sales/maturities of investment securities		649,784	1,175,658	649,784	1,175,658
Purchase of property and equipment	20	(18,132)	(144,849)	(18,132)	(144,849)
Purchase of intangible assets	21	(45,030)	(98,703)	(45,030)	(98,703)
		-----	-----	-----	-----
Net cash generated/(used in) investing activities		437,328	(124,383)	437,328	(124,383)
		-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	29(c)	6,326,643	1,100,000	6,326,643	1,100,000

Statement Of Cash Flows

For The Year Ended 31 December 2023 (Cont.)

	Note	Group		Bank	
		2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Borrowings repaid	29(c)	(6,096,981)	(526,801)	(6,096,981)	(526,801)
Lease repayments- principal		(146,318)	(169,691)	(146,318)	(169,691)
		-----	-----	-----	-----
Net generated from financing activities		83,344	403,508	83,344	403,508
		-----	-----	-----	-----
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(467,661)	(2,281,995)	(467,661)	(2,319,497)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,183,161	3,502,658	1,183,161	3,502,658
		-----	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	29(b)	715,500	1,220,663	715,500	1,183,161
		=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

the statement of profit or loss and other comprehensive income.

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

(i) New accounting standards adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The new and amended standards and interpretations effective as of 1 January 2023 and are discussed below. The adoption of the standard and amendments did not have an impact on the financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

	Effective for annual periods beginning or after
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group’s consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts;

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

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

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

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional

implementation of the Pillar Two model rules; and Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the Group's consolidated financial statements.

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

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

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

impact on the Group's financial statements.

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

New accounting standards in issue but not yet effective (Continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification in addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future
- nts within twelve months. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS

7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the Group's financial statements.

Basis of Preparation

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

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

The Group has prepared the financial statements on the

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

basis that it will continue to operate as a going concern.

Basis of consolidation

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

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

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

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

Faulu Bancassurance Intermediary is an insurance intermediary and does not provide insurance services with only provision of agency services such as policy recommendations, managing customer accounts, handling claims, and providing advice on risk management and therefore IFRS 17 does not apply.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within the profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts

the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the gross carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

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

b) Investment in associate company

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

c) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the Bank is able to control the reversal of the temporary difference and it is probable

that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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.

d) Fees and commission

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

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

performed.

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

e) Property and equipment

Cost/revaluation

Land and buildings are initially recorded at cost.

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

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

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

that it exceeds the balance, if any, held in the revaluation surplus reserve relating to a previous revaluation of that asset.

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

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

Depreciation

Depreciation on property and equipment is calculated on the straight-line basis at the following annual rates:

Asset	Straight-line method number of years	Rate
Motor Vehicles	4	25%
Computer equipment	3	33.33%
Computer software-others	3	33.33%
Core banking system-T24	10	10%
Office machinery	5	20%
Furniture and fittings	8	12.50%
Buildings on freehold land	40	2.50%
Freehold land	Nil	Nil

Depreciation is recognised in profit or loss. On subsequent sale or retirement of a revalued property and equipment, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to revenue reserves within equity. Each year, the difference between

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

depreciation based on the revalued carrying amount of an asset (the depreciation charged to the profit or loss) and the depreciation based on the assets' original cost is transferred from the revaluation surplus to revenue reserves, net of related deferred taxation.

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

Work in progress

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

Review of residual values, useful lives

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

f) 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 straight-line basis over the estimated useful lives ranging from 3 – 10 years.

g) 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. at the commencement of the lease and end of the lease period.

Lease payments

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

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

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

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

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

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

of the profit or loss.

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

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

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

h) Impairment of tangible and intangible assets

At the end of each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

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.

i) Retirement benefit obligations

(i) Bank's defined contribution pension scheme

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

(ii) Statutory defined contribution pension scheme

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

(iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for

the liability for annual leave outstanding at the end of each reporting period.

j) Foreign currencies

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

k) 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 amortized cost;

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

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

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

Amortised cost

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

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

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

No financial instruments held at Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL)

i) Significant increase in credit risk

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

other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

instrument is determined to have low credit risk at the reporting date.

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

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

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

ii) Definition of default

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

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

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

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 reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

iv) Write-off policy

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

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an

associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities

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

Derecognition of financial liabilities

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

Borrowings

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

l) Offsetting financial instruments

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

1 Significant Accounting Policies (Continued)

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.

m) Cash and cash equivalents

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

n) 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.

o) 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.

p) Share capital

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

q) Provisions and contingent liabilities

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will

be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical accounting judgements in applying

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

the Group's policies.

Business model assessment

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

Significant increase in credit risk

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

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

Key sources of estimation uncertainty

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

Taxation provisions

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

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

Calculation of loss allowance:

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

Loss given default is an estimate of the loss arising

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

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

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

Property and equipment

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

Fair value measurement and valuation

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Valuation Committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations. The Valuation Committee is comprised of the head of the investment properties segment, heads of the Group's internal mergers and acquisitions team, the head of the

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

risk management department, chief finance officers and the managers of each property.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually by the Valuation Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Valuation Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the

financial assets and liabilities, and their fair values.

valuation computation to contracts and other relevant documents.

The Valuation Committee also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the Valuation Committee and the Group's external valuers present the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Classification and fair values of financial assets and liabilities

The table below sets out the group's classification of

Assets	GROUP		BANK	
	2023	2022	2023	2022
	At amortized cost Shs. 000	At amortized cost Shs. 000	At fair value Shs.000	At fair value Shs.000
Cash and bank balances	275,892	352,551	275,892	352,551
Balances due from Banks and financial institutions	292,133	430,610	292,133	430,610
Short term deposits	147,475	-	147,475	-
Cash Reserve Ratio-CBK	866,226	926,455	866,226	926,455
Government treasury bonds	3,642,670	4,158,849	2,987,858	3,472,106
Loans and advances (net)	12,384,123	12,974,662	12,384,123	12,974,662
Other Assets	633,557	591,724	633,557	591,724
	18,242,076	19,434,851	17,587,264	18,748,108

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Liabilities				
Cash collaterals	248,590	393,027	248,590	393,027
Customer Deposits	15,385,603	15,742,106	15,385,603	15,742,106
Borrowings	1,495,000	1,265,338	1,661,942	1,373,946
Lease Liability	331,295	477,613	368,290	518,608
Other Liabilities	1,125,028	1,167,163	1,125,027	1,167,163
	18,585,516	19,045,247	18,789,452	19,194,850

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.

3. FINANCIAL RISK MANAGEMENT

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

- Credit Risk
- Liquidity Risk
- Market Risks

a) Credit risk

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

Credit risk management

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

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management

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

Significant increase in credit risk

As explained in note 1 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default financial risk management note (Page 42) discusses the significant increases in credit risk and relevant information into the judgement.

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

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

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

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

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

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

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

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

Incorporation of forward-looking information

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

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

used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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 Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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

The measurement of ECL is based on probability weighted

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

Groupings based on shared risks characteristics.

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

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

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

Credit quality

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

(i) Management of credit risk

Concentrations of assets:

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

Principal loans to customers	2023		2022	
	Shs '000	%	Shs '000	%
Agriculture	309,148	2%	374,155	3%
Trade	3,253,778	24%	3,977,473	26%
Consumer	10,192,544	74%	10,833,187	71%
	-----	-----	-----	-----
	13,755,470	100%	15,184,815	100%
	=====	=====	=====	=====

Cash Collaterals

Agriculture	17,401	7%	18,987	5%
Trade	211,302	85%	357,831	91%
Consumer	19,887	8%	16,211	4%
	-----	-----	-----	-----
	248,590	100%	393,029	100%
	=====	=====	=====	=====

(ii) Maximum exposure to credit risk before collateral held

	2023		2022	
	Shs '000	%	Shs '000	%
Credit exposure on balance sheet items:				
Short term deposits with banks	147,622	1%	-	0%
Loans to customers	14,705,894	74%	16,084,000	74%
Government securities	3,661,928	18%	4,180,021	19%
Bank balances	292,182	1%	430,682	2%

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Cash balances with Central Bank of Kenya	866,226	4%	926,455	4%
Other Assets	315,446	2%	315,446	1%
	-----		-----	
Total gross carrying amount	19,989,298	100%	21,936,604	100%
Allowance for credit losses (Note 11(b))	(2,367,546)		(3,152,968)	
	-----		-----	
Net carrying amount	17,621,752		18,783,636	
	=====		=====	

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

31 December 2023				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances to customers at amortised cost	Shs '000	Shs '000	Shs '000	Shs '000
Grade 1: Normal	8,477,361	29,034	3,957	8,510,350
Grade 2: Watch	1,808,233	37,817	7,853	1,853,904
Grade 3: Substandard	101,594	372,626	8,224	482,444
Grade 4: Doubtful	56	192,110	3,394	195,561
Grade 5: Loss	13,656	49,230	3,600,749	3,663,635
Total gross carrying amount	10,400,900	680,817	3,624,177	14,705,894
Allowance for credit losses	(17,582)	(34,888)	(2,269,301)	(2,321,771)
Net carrying amount	10,383,318	645,929	1,354,876	12,384,123
	=====	=====	=====	=====
Grade 1: Normal	9,167,259	17,438	1,067	9,185,764
Grade 2: Watch	1,537,491	101,312	5,797	1,644,600
Grade 3: Substandard	106,343	393,495	6,583	506,421
Grade 4: Doubtful	159	257,525	17,826	275,510
Grade 5: Loss	9,666	56,934	4,405,105	4,471,705
Total gross carrying amount	10,820,918	826,704	4,436,378	16,084,000
Allowance for credit losses	(97,723)	(89,304)	(2,922,311)	(3,109,338)
Net carrying amount	10,723,195	737,400	1,514,067	12,974,662
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

31 December 2023				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance- Loans and advances to customers at amortized cost	Shs '000	Shs '000	Shs '000	Shs '000
Grade 1: Normal	9,683	386	2,162	12,231
Grade 2: Watch	6,625	267	607	7,499
Grade 3: Substandard	944	12,883	66	13,893
Grade 4: Doubtful	3	14,773	1,299	16,075
Grade 5: Loss	328	6,579	2,265,166	2,272,073
Total credit losses	17,583	34,888	2,269,300	2,321,771

31 December 2022				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance- Loans and advances to customers at amortized cost	Shs '000	Shs '000	Shs '000	Shs '000
Grade 1: Normal	75,836	2,257	528	78,621
Grade 2: Watch	14,687	10,935	2,983	28,605
Grade 3: Substandard	3,311	32,956	3,656	39,923
Grade 4: Doubtful	1	32,811	6,085	38,897
Grade 5: Loss	3,888	10,345	2,909,059	2,923,292
Total credit losses	97,723	89,304	2,922,311	3,109,338

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

31 December 2023

	Stage 1			Total
	12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance- Loans and advances to customers at amortized cost	Shs '000	Shs '000	Shs '000	Shs '000
Loss allowance as at 1 January 2023	(97,723)	(89,304)	(2,922,311)	(3,109,338)
Amount charged to P/L (sub-total of the items below)	(88,530)	(52,858)	(148,821)	(290,209)
Originations, purchases, and interest accruals	(223,282)	(138,709)	(192,870)	(554,861)
Repayments & other derecognitions, excluding write-offs	133,256	65,592	65,804	264,652
Changes in the loss allowance				-
- Transfer to stage 1	(165,550)	9,615	155,935	-
- Transfer to stage 2	7,262	(155,629)	148,367	-
- Transfer to stage 3	328,454	273,547	(602,001)	-
- Changes due to modification that did not result in derecognition.				
- Changes to model and risk parameters used for ECL calculations				
- Write-offs	-	-	1,077,776	1,077,776
Loss allowance as at 31 December 2023	(17,583)	(34,888)	(2,269,300)	(2,321,771)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

31 December 2022

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

31 December 2023

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance- Other financial assets at amortised cost	Shs '000	Shs '000	Shs '000	Shs '000
Loss allowance as at 1 January 2023	(32,481)	(4,438)	(6,711)	(43,630)
Amount charged to P/L (sub-total of the below items)	(279)	(1,008)	(858)	(2,145)
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	(279)	(1,008)	(858)	(2,145)
Financial assets that have been derecognised				
Loss allowance as at 31 December 2023	(32,760)	(5,446)	(7,569)	(45,775)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

31 December 2022

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance- Other financial assets at amortised cost	Shs '000	Shs '000	Shs '000	Shs '000
Loss allowance as at 1 January 2022	(31,485)	(1,051)	(14,760)	(47,296)
Amount charged to P/L (sub-total of the below items)	251	4,629	(8,546)	(3,666)
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	-	-	-
- Increases due to change in credit risk	-	-	-	-
- Decreases due to change in credit risk	-	-	-	-
- Write-offs	-	-	-	-
New financial assets originated or purchased	(996)	(3,387)	-	(4383)
Financial assets that have been derecognised			8,049	8,049
Loss allowance as at 31 December 2022	(32,481)	(4,438)	(6,711)	(43,630)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

31 December 2023

Banking	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Gross carrying amounts- Loans and advances to customers at amortised cost	Shs'000	Shs'000	Shs'000	Shs'000
Gross carrying as at 1 January 2023	10,820,918	826,704	4,436,378	16,084,000
Changes in the loss allowance				
- Transfer to stage 1	480,638	(202,460)	(278,178)	-
- Transfer to stage 2	(200,711)	419,606	(218,895)	-
- Transfer to stage 3	447,626	(144,059)	(303,567)	0
- Write-offs	-	-	(1,077,776)	(1,077,776)
New financial assets originated or purchased	5,186,673	232,566	1,261,454	6,680,693
Financial assets that have been derecognised	(6,334,244)	(451,540)	(195,239)	(6,981,023)
Gross carrying amounts as at 31 December 2023	10,400,900	680,817	3,624,177	14,705,894

31 December 2022

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

The tables below analyse the movement of the gross carrying amount during the year per segment i.e SME, Community and Retail banking.

December 2023

	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
Gross carrying amounts- Loans and advances to customers at amortized cost	Shs '000	Shs '000	Shs '000	Shs '000
SME				
Gross carrying as at 1 January 2023	1,316,452	171,164	1,398,509	2,886,125
- Transfer to stage 1	(85,175)	55,516	29,659	-
- Transfer to stage 2	43,082	(68,513)	25,431	-
- Transfer to stage 3	6,332	5,259	(11,591)	-
- Write-offs	-	-	(145,910)	(145,910)
New financial assets originated or purchased	1,172,240	45,439	2,751	1,220,430
Financial assets that have been derecognized	(687,515)	(92,188)	(88,398)	(868,101)
Gross carrying amounts as at 31 December 2023	1,765,416	116,677	1,210,451	3,092,544
Community				
Gross carrying as at 1 January 2023	771,436	151,991	1,245,551	2,168,978
- Transfer to stage 1	(74,334)	14,867	59,467	-
- Transfer to stage 2	1,865	(74,429)	72,564	-
- Transfer to stage 3	1,180	246	(1,426)	-
- Write-offs	-	-	(450,460)	(450,460)
New financial assets originated or purchased	387,787	18,117	8,393	414,297
Financial assets that have been derecognized	(428,307)	(43,541)	(71,621)	(543,469)
Gross carrying amounts as at 31 December 2023	659,627	67,251	862,468	1,589,346
Retail				
Gross carrying as at 1 January 2023	8,733,029	503,549	1,792,320	11,028,898
- Transfer to stage 1	(651,097)	289,038	362,059	-
- Transfer to stage 2	155,727	(297,178)	141,451	-
- Transfer to stage 3	175,299	19,301	(194,600)	-

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

- Write-offs	-	-	(481,405)	(481,405)
New financial assets originated or purchased	4,898,424	113,321	54,877	5,066,622
Financial assets that have been derecognized	(5,335,525)	(131,142)	(123,444)	(5,590,111)
Gross carrying amounts as at 31 December 2023	7,975,857	496,889	1,551,258	10,024,004
Grand Total amounts as at 31 December 2023	10,400,900	680,817	3,624,177	14,705,894

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

December 2022

	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	Shs '000	Shs '000	Shs '000	Shs '000
Gross carrying amounts- Loans and advances to customers at amortized cost				
SME				
Gross carrying as at 1 January 2022	1,600,518	55,021	1,406,036	3,061,575
- Transfer to stage 1	9,303	(3,198)	(6,105)	-
- Transfer to stage 2	(115,113)	116,545	(1,432)	-
- Transfer to stage 3	(6,105)	(17,735)	23,840	-
- Write-offs	-	-	-	-
New financial assets originated or purchased	732,881	38,365	16,578	787,824
Financial assets that have been derecognized	(905,032)	(17,834)	(40,408)	(963,274)
Gross carrying amounts as at 31 December 2022	1,316,452	171,164	1,398,509	2,886,125
Community				
Gross carrying as at 1 January 2022	1,357,379	169,305	1,125,246	2,651,930
- Transfer to stage 1	3,877	(2,833)	(1,044)	-
- Transfer to stage 2	(48,642)	48,966	(324)	-
- Transfer to stage 3	(94,062)	(69,710)	163,772	-
- Write-offs	-	-	7,747	7,747
New financial assets originated or purchased	595,174	100,571	53,750	749,495
Financial assets that have been derecognized	(1,042,291)	(94,308)	(103,596)	(1,240,195)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Gross carrying amounts as at 31 December 2022	771,435	151,991	1,245,551	2,168,977
Retail				
Gross carrying as at 1 January 2022	10,826,980	602,526	1,554,060	12,983,566
- Transfer to stage 1	133,588	(79,207)	(54,381)	-
- Transfer to stage 2	(266,027)	280,839	(14,812)	(0)
- Transfer to stage 3	(289,842)	(178,648)	468,490	-
- Write-offs				
New financial assets originated or purchased	4,929,416	113,321	54,877	5,097,614
Financial assets that have been derecognized	(6,601,086)	(235,281)	(215,915)	(7,052,282)
Gross carrying amounts as at 31 December 2022	8,733,029	503,550	1,792,319	11,028,898
Grand Total amounts as at 31 December 2022	10,820,916	826,703	4,436,379	16,084,000

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

	Stage 1	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31 December 2023	Shs '000	Shs '000	Shs '000	Shs '000
SME				
Loss allowance as at 1 January 2023	(2,871)	(5,709)	(703,336)	(711,916)
Amount charged to P&L (sub-total)	(22,255)	(20,247)	(37,863)	(80,365)
Originations, purchases, and interest accruals	(23,176)	(20,791)	(37,875)	(81,842)
Repayments & other derecognitions, excl write-offs	322	125	55,707	56,154
Changes in the loss allowance				
-Transfer to stage 1	3,628	(2,452)	(1,176)	-
-Transfer to stage 2	(1,164)	2,811	(1,647)	-
-Transfer to stage 3	(210)	(99)	309	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs			145,910	145,910
Loss allowance as at 31 December 2023	(23,471)	(26,115)	(542,108)	(591,694)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Community				
Loss allowance as at 1 January 2023	(12,664)	(29,088)	(1,005,078)	(1,046,830)
Amount charged to P&L (sub-total)	(20,246)	(18,421)	(34,448)	(73,115)
Originations, purchases, and interest accruals	(29,210)	(45,351)	(491,281)	(565,842)
Repayments & other derecognitions, excl write-offs	1,895	1,822	164,038	167,755
Changes in the loss allowance				
-Transfer to stage 1	25,435	(125)	(25,310)	-
-Transfer to stage 2	(539)	48,224	(47,685)	-
-Transfer to stage 3	(44)	(31)	75	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs			450,460	450,460
Loss allowance as at 31 December 2023	(15,127)	(24,549)	(954,781)	(994,457)
Retail				
Loss allowance as at 1 January 2023	(82,189)	(54,507)	(1,213,896)	(1,350,592)
Amount charged to P&L (sub-total)	(37,863)	(34,448)	(64,418)	(136,729)
Originations, purchases and interest accruals	(15,817)	(29,008)	(6,367)	(51,192)
Repayments & other derecognitions, excl write-offs	9,319	3,793	171,647	184,759
Changes in the loss allowance				
-Transfer to stage 1	138,839	(7,039)	(131,800)	-
-Transfer to stage 2	(6,637)	105,672	(99,035)	-
-Transfer to stage 3	(22,500)	(3,135)	25,635	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs			481,405	481,405
Loss allowance as at 31 December 2023	21,015	15,776	(772,411)	(735,620)
Grand Total Loss Allowance as at 31 December 2023	(17,583)	(34,888)	(2,269,300)	(2,321,771)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

	Stage 1	Stage 2	Stage 3	Total
	Lifetime ECL	Lifetime ECL	Lifetime ECL	
31 December 2022	Shs '000	Shs '000	Shs '000	Shs '000
SME				
Loss allowance as at 1 January 2022	(7,767)	(21,760)	(685,565)	(715,092)
Amount charged to P&L (sub-total)	554	(1,795)	(11,986)	(13,227)
Originations, purchases, and interest accruals	(2,113)	(2,212)	(4,647)	(8,972)
Repayments & other derecognitions, excl write-offs	9,456	46	2,646	12,148
Changes in the loss allowance				
-Transfer to stage 1	(15)	16	(1)	-
-Transfer to stage 2	(3,470)	5,721	(2,251)	-
-Transfer to stage 3	1,038	12,480	(13,518)	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs				
Loss allowance as at 31 December 2022	(2,871)	(5,709)	(703,336)	(711,916)
Community				
Loss allowance as at 1 January 2022	(47,426)	(42,004)	(1,101,802)	(1,191,232)
Amount charged to P&L (sub-total)	3,648	(1,096)	(32,081)	(29,529)
Originations, purchases, and interest accruals	(11,793)	(22,815)	(31,956)	(66,564)
Repayments & other derecognitions, excl write-offs	116,924	85,345	950	203,219
Changes in the loss allowance				
-Transfer to stage 1	49	(36)	(13)	-
-Transfer to stage 2	(5,739)	5,742	(3)	-
-Transfer to stage 3	(64,679)	(55,320)	119,999	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs			7,747	7,747

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Loss allowance as at 31 December 2022	(12,664)	(29,088)	(1,005,078)	(1,046,830)
Retail				
Loss allowance as at 1 January 2022	(221,513)	(263,838)	(1,252,327)	(1,737,678)
Amount charged to P&L (sub-total)	57,503	39,732	147,792	245,027
Originations, purchases and interest accruals	(53,757)	(17,008)	(22,794)	(93,559)
Repayments & other derecognitions, excl write-offs	278,052	150,607	51,986	480,645
Changes in the loss allowance				
-Transfer to stage 1	5,632	(868)	(4,764)	-
-Transfer to stage 2	(20,717)	25,229	(4,512)	-
-Transfer to stage 3	(69,886)	51,371	18,515	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations				
-Write-offs				
Loss allowance as at 31 December 2022	(82,189)	(54,507)	(1,213,896)	(1,350,592)
Grand Total Loss Allowance as at 31 December 2022	(97,723)	(89,304)	(2,922,311)	(3,109,338)

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Loans to customers

	Gross	Net
31 December 2023	Shs '000	Shs '000
IFRS 9 Stage 1 (0- 30 days)	10,363,987	10,341,802
IFRS 9 Stage 2 (31- 90 days)	676,505	649,641
IFRS 9 Stage 3(Over 90 days)	3,665,402	1,392,680
	14,705,894	12,384,123
	=====	=====
31 December 2022		
IFRS 9 Stage 1 (0- 30 days)	10,820,918	10,723,194
IFRS 9 Stage 2 (31- 90 days)	826,704	737,401
IFRS 9 Stage 3(Over 90 days)	4,436,378	1,514,067
	16,084,000	12,974,662
	=====	=====

Cash Collateral held

The Group's cash collateral consists of collateral held against loans and receivables from group customers (note 23). The fair value of cash collateral is Shs 248,589,503 (2022: Shs 393,026,527).

Other forms of collateral include land, buildings and motor vehicles with total capped value of Shs.2.8 billion (2022: Shs 3.2 billion)

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:

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

(i) Management of liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through consistent monitoring of customer deposits and tracking of liquidity ratio on a regular basis with internal appetite set at 25%. The group has available repo lines with select local banks to support liquidity during strains.

The banks's liquidity is mainly financed through customer deposits and borrowings from external partners. Customer deposits experience a concentration risk among top borrowers and short-term tenure of deposits.

A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity ratio as at 31 December 2023 was 30.2% (2022: 29.6%). The Central Bank of Kenya minimum liquidity regulatory requirement is 20%.

(ii) Source of funding

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

As at December 2023

	Maturing in less than 1 month	1 month less than 3 months	3 months less than 6 months	6 month less than 1 year	1 year less than 3 year	3 year less than 5 year	Over 5 years	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
As at December 2023								
FINANCIAL LIABILITIES								
Cash collateral held	84,089	38,044	44,494	51,491	29,280	1,069	123	248,590
Borrowings	95,000	-	150,000	850,000	-	400,000	-	1,495,000
Customer deposits	5,378,717	4,300,501	3,152,626	1,942,347	476,826	133,495	1,091	15,385,603
Lease liability	-	-	-	146,295	180,359	67,649	13,005	407,308
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Total liabilities (contractual maturity dates)	5,557,806	4,338,545	3,347,120	2,990,133	686,465	602,213	14,219	17,536,501
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CONTINGENT LIABILITIES			5,000		17,500	2,000	29,500	54,000
FINANCIAL GUARANTEES	-	5,000	-	12,711	-	-	-	17,711
FINANCIAL ASSETS								
Cash and bank balances	568,025	-	-	-	-	-	-	568,025
Short term deposits	-	-	-	147,475	-	-	-	147,475
Cash reserve requirement	866,226	-	-	-	-	-	-	866,226
Government securities	-	-	-	-	10,000	1,050,000	2,450,000	3,510,000
Loans to customers (net)	1,735,723	764,220	970,916	1,548,423	3,915,256	2,280,090	1,169,495	12,384,123
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Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Total assets (expected maturity dates)	3,169,974	764,220	970,916	1,695,898	3,925,256	3,330,090	3,619,495	17,475,849
NET LIQUIDITY EXCESS/GAP	(2,387,832)	(3,574,325)	(2,376,204)	(1,294,235)	3,238,791	2,727,877	3,605,276	(60,652)
As at 31 December 2022	=====	=====	=====	=====	=====	=====	=====	=====
Total liabilities (contractual maturity dates)	6,469,489	5,264,648	3,099,036	2,112,904	163,856	846,574	195	17,956,702
Total assets (expected maturity dates)	2,624,257	1,888,409	1,339,345	1,639,786	4,060,323	2,690,322	4,441,775	18,684,217
NET LIQUIDITY EXCESS/GAP	(3,845,232)	(3,376,239)	(1,759,691)	(473,118)	3,896,467	1,843,748	4,441,580	727,515
	=====	=====	=====	=====	=====	=====	=====	=====

December 2022

	Maturing in less than 1 month	1 month less than 3 months	3 month less than 6 month	6 month less than 1 year	1 year less than 3 year	3 year less than 5 year	Over 5 years	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
As at December 2022								
FINANCIAL LIABILITIES								
Cash collateral held	60,621	132,476	70,344	81,409	46,293	1,690	195	393,028
Borrowings	6,944	258,393	175,000	425,000	-	841,847	-	1,707,184
Customer deposits	6,401,924	4,873,779	2,853,692	1,606,495	117,563	3,037	-	15,856,490
	=====	=====	=====	=====	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Total liabilities (contractual maturity dates)	6,469,489	5,264,648	3,099,036	2,112,904	163,856	846,574	195	17,956,702
CONTINGENT LIABILITIES			5,000		17,500	2,000	29,500	54,000
FINANCIAL GUARANTEES	-	5,000	-	12,711	-	-	-	17,711
FINANCIAL ASSETS								
Cash and bank balances	783,294	-	-	-	-	-	-	783,294
Short term deposits	-	-	-	-	-	-	-	-
Cash reserve requirement	926,477	-	-	-	-	-	-	926,477
Government securities	100,000	99,784	300,000	-	-	300,000	3,200,000	3,999,784
Loans to customers (net)	814,486	1,788,625	1,039,345	1,639,786	4,060,323	2,390,322	1,241,775	12,974,662
Total assets (expected maturity dates)	2,624,257	1,888,409	1,339,345	1,639,786	4,060,323	2,690,322	4,441,775	18,684,217
NET LIQUIDITY EXCESS/GAP	(3,845,232)	(3,376,239)	(1,759,691)	(473,118)	3,896,467	1,843,748	4,441,580	727,515
As at 31 December 2021								
Total liabilities (contractual maturity dates)	8,071,962	6,836,268	3,655,412	2,746,025	419,777	6,476	953,067	22,688,987
Total assets (expected maturity dates)	7,013,722	2,419,682	1,887,004	2,115,839	5,145,182	3,284,753	2,550,886	24,417,068
NET LIQUIDITY GAP	(1,058,240)	(4,416,586)	(1,768,408)	(630,186)	4,725,405	3,278,277	1,597,819	1,728,081

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

c) Market Risk

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

Management of market risks

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

Exposure to interest rate risk

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

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

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

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

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

	Less than 1 month	1 month less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 year	3 year less than 5 year	Over 5 years	Non-interest bearing	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
A. FINANCIAL ASSETS									
Cash and bank balances	-	-	-	-	-	-	-	568,025	568,025
Short term deposits	-	-	-	147,475	-	-	-	-	147,475
Cash reserve ratio (CBK)	-	-	-	-	-	-	-	866,226	866,226
Government securities	-	-	-	-	10,000	1,050,000	2,450,000	-	3,510,000
Loans to customers (net)	764,220	1,735,723	970,916	1,548,423	3,915,256	2,280,089	1,169,496	-	12,384,123
Total financial assets	764,220	1,735,723	970,916	1,695,898	3,925,256	3,330,089	3,619,496	1,434,251	17,475,849
B. FINANCIAL LIABILITIES									
Borrowings	95,000	-	150,000	850,000	-	400,000	-	-	1,495,000
Customer deposits	5,378,717	4,300,501	3,152,627	1,942,347	476,826	133,495	1,090	-	15,385,603
Cash collateral held	-	-	-	-	-	-	-	248,590	248,590
Total financial liabilities	5,473,717	4,300,501	3,302,627	2,792,347	476,826	533,495	1,090	248,590	17,129,193

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

C. On statement of financial position-interest sensitivity gap										
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
D. As at 31 December 2022										
Total financial assets	1,697,780	1,888,408	1,339,345	1,639,786	4,060,323	2,390,322	1,241,775	4,426,478	18,684,217	
Total financial liabilities	6,408,869	5,132,172	3,028,693	2,031,495	117,563	403,037	-	393,027	17,514,856	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
E. On statement of financial position-interest sensitivity gap	(4,711,089)	(7,954,853)	(9,644,201)	(10,035,910)	(6,093,150)	(4,105,865)	(2,864,090)	1,169,360	2,338,721	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Interest rate risk sensitivity analysis.

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:

	2023 Shs'000		2022 Shs'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
3% increase in interest rates	42,145 =====	29,502 =====	61,843 =====	43,290 =====
3% decrease in interest rates	(42,145) =====	(29,502) =====	(61,843) =====	(43,290) =====

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

These are scenario-based sensitivity analysis to assess possible impact based on various percentage points change assumed. The sensitivity change point is based on historical market interest rate yield curve weighted average within one year window.

Currency risk The Group operates wholly within Kenya and its assets and liabilities are reported in the local currency.

The Group's currency position is as follows. Amounts in Shs '000

	Shs	USD	Euro	GBP	Total
A. ASSETS					
Cash and bank balances	415,668	136,481	9,528	6,349	568,026
Short term deposits with banks	52,000	95,475	-	-	147,475
Cash reserve ratio (CBK)	866,226	-	-	-	866,226
Government securities	3,510,000	-	-	-	3,510,000
Loans to customers (net)	12,384,122	-	-	-	12,384,122

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

Total financial assets	17,228,016	231,956	9,528	6,349	17,475,849
	-----	-----	-----	-----	-----
B. LIABILITIES					
Cash collateral held	248,590	-	-	-	248,590
Borrowings	1,495,000	-	-	-	1,495,000
Customer deposits	14,031,544	1,309,526	206	44,327	15,385,603
Total financial liabilities	15,775,134	1,309,526	206	44,327	17,129,193
	-----	-----	-----	-----	-----
C. NET BALANCE SHEET POSITION	586,656	(1,077,570)	9,322	(37,978)	(519,570)
	=====	=====	=====	=====	=====
As at 31 December 2022					
A. Total financial assets	18,204,447	398,873	54,409	26,488	18,684,217
	-----	-----	-----	-----	-----
B. Total financial liabilities	17,011,842	473,424	67	29,523	17,514,856
	-----	-----	-----	-----	-----
C. NET BALANCE SHEET POSITION	266,128	(74,551)	54,342	(3,035)	242,884
	=====	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

3 Financial Risk Management (Continued)

The table below summarizes the estimated impact of a 10% decline/appreciation of the Kenya Shilling against the two major currencies traded by the Group i.e. the US Dollar and the Euro based on historical currency appreciation in the market within a window of three years.

	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
	Effect on profit before tax	Effect on profit before tax	Effect on Equity	Effect on Equity
Currency – Euro				
+ 10% Shs movement	10,441	(5,434)	949	8,033
- 10% Shs movement	(10,441)	5,434	(949)	(8,033)
	=====	=====	=====	=====
Currency - US dollars				
+ 10% Shs movement	23,207	7,455	(6,911)	(10,333)
- 10% Shs movement	(23,207)	(7,455)	6,911	10,333
	=====	=====	=====	=====
Currency – GBP				
+ 10% Shs movement	6,983	(2,649)	(250)	4,430
- 10% Shs movement	(6,983)	2,649	250	(4,430)
	=====	=====	=====	=====

4 CAPITAL RISK MANAGEMENT

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

The Microfinance bank regulatory capital is analysed into two tiers:

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

4 Capital Risk Management (Continued)

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

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

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

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

A minimum level of regulatory capital of Shs 60 million.

A ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10%.

Core capital of not less than 8% of total deposit liabilities.

Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

Faulu Microfinance Bank Limited did not breach any regulatory capital ratios by close of financial year 2022 and 2023.

The capital position as at 31 December 2023 was as follows;

	BANK	
	2023	2022
	Shs '000	Shs '000
Tier 1 capital		
Share capital	659,996	659,996
Share premium	3,769,763	3,769,763
Accumulated deficit	(2,915,562)	(2,194,846)
Total deductions	(69,159)	(65,872)
	-----	-----
	1,445,038	2,169,041
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

4 Capital Risk Management (Continued)

Tier 2 capital		
Revaluation reserve	70,018	70,018
Term subordinated debt	400,000	400,000
	-----	-----
	470,018	470,018
	=====	=====
Regulatory capital	1,915,056	2,639,059
	=====	=====
Total risk-weighted assets	13,896,946	14,943,053
	=====	=====
Borrowings	1,495,000	1,265,338
	=====	=====
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum -12%)	13.78%	17.7%
Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum -10%)	10.40%	14.5%
	=====	=====

The Insurance Regulatory Authority (IRA) requires each insurance broker and agency to maintain a minimum level of regulatory capital of Shs 5,000,000 (2022 Shs 5,000,000). As at 31 December 2023, the subsidiary Faulu Bancassurance Intermediary Limited had a capital of Shs 141,756,000 (2022: Shs 119,184,517).

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

4 Capital Risk Management (Continued)

Capital allocation.

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

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the 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 the Bank's longer-term strategic objectives. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Loans and receivables	2,481,225	3,005,741	2,481,225	3,005,741
Short term bank deposits	22,133	21,872	22,133	21,872
Government securities	425,307	498,495	424,137	497,368
	-----	-----	-----	-----
	2,928,665	3,526,108	2,927,495	3,524,981
	=====	=====	=====	=====

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

	GROUP		BANK	
Savings accounts	1,396,512	1,408,495	1,406,973	1,413,545
Borrowed funds	172,607	103,235	172,607	103,235
Interest expense on lease liability	47,383	58,915	47,383	58,915
	-----	-----	-----	-----
	1,616,502	1,570,645	1,626,963	1,575,695
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

7(a) FEES AND COMMISSIONS INCOME

	GROUP		BANK	
	2023	2022	2023	2022
Registration fees	261	474	261	474
Loan set up fees	173,923	251,435	173,923	251,435
Commission (net)	230,619	260,436	189,752	215,184
Chattels mortgage fees	2,577	9,220	2,577	9,220
	407,380	521,565	366,513	476,313
	=====	=====	=====	=====

7(b) FEE AND COMMISSION EXPENSE

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Commission on sales	98,648	136,161	94,323	130,164
Bank charges	9,379	28,102	9,379	28,102
Other fees and commission	73,793	68,601	73,793	68,601
	181,820	232,864	177,495	226,867
	=====	=====	=====	=====

7(c) OTHER INCOME

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Bad debts recovered	40,191	20,725	40,191	20,725
Other income	334,413	14,421	334,413	14,421
	374,604	35,146	374,604	35,146
	=====	=====	=====	=====

Other income comprises of donations income received during the period and prior years group recharges reversal.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

8 OPERATING INCOME AND NET OPERATING LOSS

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

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

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

9 ADMINISTRATION AND OPERATING EXPENSES

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Staff costs (note 10)	1,033,085	987,389	1,025,517	978,363
Office operations and supplies	585,646	544,434	585,646	544,434
Training and evaluation	16,210	12,478	16,210	12,478
Office rent and repairs	10,168	11,543	10,168	11,543
Travelling expenses	31,802	34,267	31,802	34,267
Depreciation of property and equipment	109,748	129,446	109,713	129,403
Depreciation on right of use assets	191,148	206,245	191,148	206,245
Audit fees	11,787	10,748	11,237	10,203
(Gain)/loss on disposal of motor vehicle	31,141	63,006	31,141	63,006
Amortisation of intangible assets	101,972	76,665	99,433	73,891
Directors' fees	19,119	17,817	17,433	16,281
Insurance costs	107,685	102,823	107,685	102,823
Group cost	-	194,385	-	194,385
Other expenses	96,594	98,239	93,999	96,088
	2,346,105	2,489,485	2,331,132	2,473,410
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

Other expenses comprise marketing and advertising, deposit protection fund, printing and stationery and other general expenses.

10 STAFF COSTS

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Staff salaries and wages	823,504	761,750	816,826	753,669
Medical expenses	98,321	90,305	98,321	90,305
Defined contribution pension scheme	63,445	63,276	62,864	61,916
Statutory pension contribution (NSSF)	11,744	680	11,744	1,360
Recruitment	3,003	932	3,003	932
Staff welfare & entertainment	15,517	15,902	15,469	15,900
Staff bonus	16,784	35,944	16,523	35,754
Leave provision	(4,469)	16,041	(4,469)	15,968
Staff welfare-other	5,236	2,559	5,236	2,559
	-----	-----	-----	-----
	1,033,085	987,389	1,025,517	978,363
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

11a) IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Loans Written off during the year	(1,077,777)	(7,746)	(1,077,777)	(7,746)
Balance at end of the period	2,371,613	3,154,522	2,367,545	3,152,968

b) Balance at the end of the period is split as of follows:

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Balances due from banks and financial institutions	49	72	49	72
Short term deposits banks	194	62	194	62
Government securities	29,788	31,436	29,528	31,176
Other assets	19,791	13,592	15,984	12,299
	2,371,613	3,154,522	2,367,546	3,152,969

12 TAXATION

a) Tax income

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Prior year under provision of current tax	-	618	-	-
Share of associate company taxation (note 18(a))	1,408	1,157	1,408	1,157

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

12 Taxation (Continued)

Total current tax charge	11,737	11,250	1,408	1,157
Deferred tax:				
Deferred tax credit for current year	(1,023)	8,520	-	9,224
Prior under provision of deferred tax asset (note 19)	124	(11,576)	-	(11,702)
Unrecognized deferred tax	-	-	-	-
Deferred tax impaired*	719,308	308,275	719,308	308,275
Total deferred tax credit	718,409	305,219	719,308	305,797
Tax income	730,146	316,469	720,716	306,954

*The bank impaired deferred tax asset by Shs719,308,411.88, (2022, Shs 308,275,024).

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

12 Taxation (Continued)

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

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Accounting loss before tax	(688,627)	15,209	(719,312)	(13,779)
	=====	=====	=====	=====
Tax at the applicable rate of 30% (2022: 30%)	(206,588)	4,562	(215,794)	(4,134)
Tax effect of expenses not deductible for tax purposes	91,612	13,433	91,512	13,358
Income not subject to tax	(86,812)	-	(86,812)	-
Deferred tax on IFRS 16 Balances	(8,448)	-	(8,448)	-
Prior year under provision of current tax	-	618	-	-
Prior year over/under provision of deferred tax asset (note 19)	(17,281)	(11,576)	(17,405)	(11,702)
Effect of change in tax rate on deferred tax 30% (2022: 30%)	-	-	-	-
Unrecognized deferred tax	236,947		236,947	
Deferred tax impaired	719,308	308,275	719,308	308,275
	-----	-----	-----	-----
	728,738	315,312	719,308	305,797
Share of associate company tax (note 18(a))	1,408	1,157	1,408	1,157
	-----	-----	-----	-----
	730,146	316,469	720,716	306,954
	=====	=====	=====	=====

c) Current tax

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Paid in the year	(46,873)	(57,221)	(36,837)	(44,704)
Prior year under provision of current tax	(676)	617	-	-
At 31 December	(377,755)	(340,535)	(365,816)	(328,979)
	=====	=====	=====	=====
Current tax assets	(377,755)	(340,535)	(365,816)	(328,979)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

12 Taxation (Continued)

Current tax liabilities	-	-	-	-
	-----	-----	-----	-----
	(377,755)	(340,535)	(365,816)	(328,979)
	=====	=====	=====	=====

13 SHORT TERM DEPOSITS WITH BANKS

	GROUP		BANK	
	2023	2022	2023	2022
Amortized cost	Shs '000	Shs '000	Shs '000	Shs '000
The Co-operative Bank of Kenya Limited	52,498	-	52,498	-
Family Bank Limited	95,124	-	95,124	-
Less: allowance for credit losses (Note (11(b)))	(147)	-	(147)	-
	147,475	-	147,475	-
	=====	=====	=====	=====

Effective interest rate average 12.05% in 2023 and 4.8% in 2022.

14 CASH BALANCES WITH CENTRAL BANK OF KENYA

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Gross Cash reserve requirement	866,246	926,477
Less: allowance for credit losses (Note (11(b)))	(20)	(22)
	-----	-----
	866,226	926,455
	=====	=====

As of 31 December 2023, the cash ratio requirement was 5.03% (2022: 5.36%) of eligible deposits. These funds are not available for the day-to-day operations of the Group and are non-interest bearing.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

15 LOANS TO CUSTOMERS

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Gross loans to customers	13,755,470	15,184,815
Interest receivable from loans and advances to customers	1,600,912	2,076,527
Less: allowance for credit losses (Note (11(b)))	(2,321,771)	(3,109,338)
Less Suspended Interest	(469,702)	(948,693)
Less Customer loan Prepayments (UNC)	(180,786)	(228,649)
	12,384,123	12,974,662
	=====	=====

The effective interest rate on customer advances at 31 December 2023 was 17.7% (2022: 18.0%). Advances to customers are secured by cash collaterals (note 23) and chattels mortgages. Other forms of collateral include land, buildings, and motor vehicles.

Suspended interest refers to accrued interest that remains uncollected due to non-payment of loans or advances. This uncollected interest is reversed from the bank's income to suspended interest account as per microfinance regulation 2008.

16 GOVERNMENT SECURITIES

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Treasury bonds - Amortised cost				
Maturing within 1 year	-	-	-	-
Maturing between 1 and 3 years	-	-	-	-
Maturing over 3 years	3,672,458	3,690,501	3,661,928	3,680,237
Treasury bonds – FVPL	-	99,784	-	99,784
	-----	-----	-----	-----

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

15 Loans to Customers (Continued)

Treasury bills – Amortised cost	3,672,458	3,790,285	3,661,928	3,780,021
	-	400,000	-	400,000
	-----	-----	-----	-----
Less: Allowance for credit losses (Note 11(b))	3,672,458	4,190,285	3,661,928	4,180,021
	(29,788)	(31,436)	(29,528)	(31,176)
	-----	-----	-----	-----
	3,642,670	4,158,849	3,632,400	4,148,845
	=====	=====	=====	=====

The effective interest rate on government securities during the year ended 31 December 2023 was 11.8% (2022 – 12.0%).

Treasury bonds worth Shs 375 million (2022: Shs. 450 million) are pledged as security for the Absa Bank Kenya PLC borrowing shown on note 25.

17 OTHER ASSETS

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Staff receivables	1,980	19,556	1,980	19,556
Prepaid expenses	188,821	147,625	188,821	147,625
Deposits and sundry receivables	462,547	438,135	450,585	429,662
	-----	-----	-----	-----
	653,348	605,316	641,386	596,843
Less: allowance for credit losses (note 11(b))	(19,791)	(13,592)	(15,984)	(12,299)
	-----	-----	-----	-----
	633,557	591,724	625,402	584,544
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

18 INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY

(a) Investments in associate company

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Faulu Advisory Services Limited:		
At 1 January	60,873	58,174
Share of profit for the year	4,694	3,856
Share of tax expense (note 12(a))	(1,408)	(1,157)
	-----	-----
At 31 December	64,159	60,873
	=====	=====

The reporting date of Faulu Advisory Services Limited ("Faulu Advisory") is 31 December 2023. Faulu Advisory is incorporated in Kenya, which is also its principal place of business. The Group holds 27% ownership interest in the associate company. Its principal activity is guaranteeing loans advanced by the Bank Limited and training beneficiaries of microfinance loans on business related courses.

Summarised financial information below represents amounts shown in the associate's unaudited financial statements (adjusted by the Group for equity accounting purposes) as of 31 December 2023:

	2023	2022
	Shs '000	Shs '000
Non-current assets	13,555	16,108
Current assets	208,897	135,445
	-----	-----
	222,452	151,553
	=====	=====
Current liabilities	(83,989)	(29,180))
	=====	=====
Revenue	100,803	80,832
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

18 Investments in Subsidiary and Associate Company (Continued)

Profit from continuing operations before tax	26,339	21,639
	=====	=====
Other comprehensive income	-	-
	=====	=====
Total comprehensive income	26,339	21,639
	=====	=====

(b) Investments in Subsidiary - Faulu Bancassurance Intermediary Limited

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

The subsidiary company's financial year-end is 31 December and is incorporated as a limited liability company. It is incorporated in Kenya under the Companies Act 2015 and domiciled in Kenya.

This subsidiary is 100% owned and fully controlled by the Group. This investment is recognised at a cost of Shs. 5,000,000 (2022: Shs. 5,000,000) in the Group's financial statements.

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

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

Faulu Bancassurance Intermediary Limited

	2023	2022
	Shs '000	Shs '000
Summarised statement of financial position		
Total assets	155,222	146,705
Total liabilities	14,782	27,520
	-----	-----
Net assets	140,440	119,185
	=====	=====
Summarised statement of profit and loss and other comprehensive income		
Revenue	48,174	45,432
	-----	-----

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

18 Investments in Subsidiary and Associate Company (Continued)

Profit before tax	30,686	28,989
Tax expense	(9,994)	(9,515)
	-----	-----
Total comprehensive income for the year	20,692	19,474
	=====	=====
Summarised statement of cash flows		
Net cash generated from operating activities	4,396	37,502
Net cash generated from investing activities	-	-
	-----	-----
Net increase in cash and cash equivalents	0	37,502
	-----	-----
Cash and cash equivalents at the beginning of the year	114,385	76,883
	-----	-----
Cash and cash equivalents at the end of the year	109,093	114,385
	=====	=====

19 DEFERRED TAX (ASSET) / LIABILITY

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
The net deferred tax asset is attributable to the following items:				
Excess depreciation over capital allowances	(81)	77,069	-	77,410
Deferred tax on revaluation surplus	-	111,139	-	111,139
Right of use assets	-	100,285	-	100,285
Provisions	(996)	(22,272)	-	(22,272)
Impairment loss allowance	(754)	(946,434)	-	(945,968)
Lease liabilities	-	(143,284)	-	(143,284)
Tax losses	-	(197,578)	-	(197,578)
Other temporary differences		(7,316)	-	(7,316)
Prior year over/under provision	124	-	-	-
	-----	-----	-----	-----
	(1,707)	(720,116)	-	(719,309)
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

19 Deferred Tax (Asset)/Liability (Continued)

The Group's and Bank's movements in the deferred tax account during the year 2023 were as follows:

Group

	At the beginning of the year	2023 Impairment	Credit to P/L	At the end of the period
	Shs '000	Shs '000	Shs '000	Shs '000
Excess depreciation of capital allowances	77,661	(77,472)	(270)	(81)
Deferred tax on revaluation surplus	108,302	(108,302)	-	-
Right of use assets	100,286	(100,286)	-	0
Provisions	(19,530)	18,534	-	(996)
Impairment loss allowance	(957,024)	957,024	(754)	(754)
Lease liabilities	(143,284)	143,284	-	-
Tax losses	(194,802)	194,802	-	(0)
Deferred tax impaired	308,275	(308,275)	-	-
Prior year over/under provision	-	-	124	124
	(720,116)	719,309	(900)	(1,707)
	=====	=====	=====	=====

Bank

Excess depreciation of capital allowances	77,472	(77,472)	-	-
Deferred tax on revaluation surplus	108,302	(108,302)	-	-
Right of use assets	100,286	(100,286)	-	-
Provisions	(18,534)	18,534	-	-
Impairment loss allowance	(957,024)	957,024	-	-
Lease liabilities	(143,284)	143,284	-	-
Tax losses	(194,802)	194,802	-	-
Deferred tax impaired	308,275	(308,275)	-	-
Unrecognized Deferred tax	-	-	-	-
Prior year over/under provision	-	-	-	-
	(719,309)	719,309	-	-
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

19 Deferred Tax (Asset)/Liability (Continued)

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

Group

2022	At the beginning of the year	Prior year over/under	Credit to P/L	At the end of the period
	Shs '000	Shs '000	Shs '000	Shs '000
Excess depreciation of capital allowances	103,391	126	(25,856)	77,661
Deferred tax on revaluation surplus	106,802	-	1,500	108,302
Right of use assets	144,287	-	(44,001)	100,286
Provisions	(10,429)	-	(9,101)	(19,530)
Impairment loss allowance	(1,021,052)	-	64,028	(957,024)
Lease liabilities	(178,278)	-	34,994	(143,284)
Tax losses	(170,307)	(11,702)	(12,793)	(194,802)
Deferred tax impaired			308,275	308,275
	(1,025,586)	(11,576)	317,046	(720,116)
	=====	=====	=====	=====

Bank

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

The Deferred tax asset of Sh 1.2Billion, has not been recognised due to lack of certainty of availability of future taxable profits against which tax losses could be utilised.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (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 2022	435,624	36,624	195,485	321,888	1,634,589	186,706	2,810,916
Additions	-	-	22,224	9,289	6,300	8,333	46,146
Transfer from WIP	-	-	-	-	15,148	(58,659)	(43,511)
Disposals	-	(191)	(33,110)	(16,470)	(162,770)	(2,498)	(215,039)
Revaluation surplus	5,000	-	-	-	-	-	5,000
At 31 December 2022	440,624	36,433	184,599	314,707	1,493,267	133,882	2,603,512
At 1 January 2023	440,624	36,433	184,599	314,707	1,493,267	133,882	2,603,512
Additions	-	-	9,007	3,693	2,259	3,173	18,132
Asset reclassification	-	-	-	343,860	(342,519)	(1,341)	-
Transfer from WIP	-	-	-	-	24,536	(24,536)	-
Disposals	-	-	(41,931)	(45)	(27,863)	-	(69,839)
Revaluation surplus	-	-	-	-	-	-	-
At 31 December 2023	440,624	36,433	151,675	662,215	1,149,680	111,178	2,551,805
DEPRECIATION							
At 1 January 2022	9,966	24,590	146,521	175,681	1,015,647	-	1,372,405
Depreciation for the year	1,305	3,008	15,659	36,888	72,585	-	129,445
Eliminated on disposals	-	(191)	(21,052)	(15,227)	(122,180)	-	(158,650)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

20 Property and Equipment (Continued)

At 31 December 2022	11,271	27,407	141,128	197,342	966,052	-	1,343,200
At 1 January 2023	11,271	27,407	141,128	197,341	966,053	-	1,343,200
Depreciation for the year	1,220	2,257	14,434	44,330	47,507	-	109,748
Depreciation on Asset reclassified	-	-	24	224,701	(194,023)	-	30,702
Eliminated on disposals	-	-	(39,931)	(32)	(16,294)	-	(56,257)
At 31 December 2023	12,491	29,664	115,655	466,340	803,243	-	1,427,393
NET BOOK VALUE							
At 31 December 2022	429,353	9,026	43,471	117,365	527,214	133,883	1,260,312
At 31 December 2023	428,133	6,769	36,020	195,875	346,437	111,178	1,124,412
If the land and building in the group were measured using the cost model, the carrying amounts would be, as follows:							
Cost							435,624
Accumulated depreciation and impairment							(12,491)
Net carrying amount							423,133

Include in depreciation on asset reclassified is Kes 30Mn relating to intangible asset (Note 21) reclassification.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

20 Property and Equipment (Continued)

BANK

	Freehold land and buildings	Motor vehicles	Computers and equipment	Electronic office equipment	Durable non-electrical equipment	Work in progress (WIP)	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
COST/VALUATION							
At 1 January 2022	435,624	36,624	195,234	321,859	1,634,235	186,706	2,810,282
Additions	-	-	22,224	9,289	6,300	8,333	46,146
Transfer from WIP	-	-	-	-	15,148	(58,659)	(43,511)
Disposals	-	(191)	(33,110)	(16,470)	(162,770)	(2,498)	(215,039)
Revaluation surplus	5,000	-	-	-	-	-	5,000
At 31 December 2022	440,624	36,433	184,348	314,678	1,492,913	133,882	2,602,878
At 1 January 2023	440,624	36,433	184,348	314,678	1,492,913	133,882	2,602,878
Additions	-	-	9,007	3,693	2,259	3,173	18,132
Asset reclassification	-	-	-	343,860	(342,519)	(1,341)	-
Transfer from WIP	-	-	-	-	24,536	(24,536)	-
Disposals	-	-	(41,931)	(45)	(27,863)	-	(69,839)
Revaluation surplus	-	-	-	-	-	-	-
At 31 December 2023	440,624	36,433	151,424	662,186	1,149,326	111,178	2,551,171
DEPRECIATION							
At 1 January 2022	9,966	24,590	146,345	175,660	1,015,487	-	1,372,048
Depreciation for the year	1,305	3,008	15,646	36,886	72,557	-	129,402

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

20 Property and Equipment (Continued)

Eliminated on disposals	-	(191)	(21,052)	(15,227)	(122,180)	-	(158,650)
At 31 December 2022	11,271	27,407	140,939	197,319	965,864	-	1,342,800
At 1 January 2023	11,271	27,407	140,939	197,319	965,864	-	1,342,800
Depreciation for the year	1,220	2,256	14,424	44,330	47,483	-	109,713
Depreciation on Asset reclassification	-	-	(8)	224,701	(193,991)	-	30,702
Eliminated on disposals	-	-	(39,931)	(32)	(16,294)	-	(56,257)
At 31 December 2023	12,491	29,663	115,424	466,318	803,062	-	1,426,958
NET BOOK VALUE							
At 31 December 2022	429,353	9,026	43,409	117,359	527,049	133,882	1,260,078
At 31 December 2023	428,133	6,770	36,000	195,868	346,264	111,178	1,124,213

At 31 December 2023, the net book value of the freehold land and building was Shs 428,133,124 , (2022: Shs 429,352,584). There was no Land and buildings revaluation in 2023, however Land and buildings was revalued at Shs 440,624,067 in December 2022 by Gimco Limited, registered valuers.

The Group property and equipment balance of Shs. 1,124,411,867 (2022: Shs 1,260,311,601.95) includes the subsidiary's assets with a net book value of Shs 198,966.04 (2022: Shs 233,804).

The Group had asset reclassification during the year 2023, Furniture and Fittings asset amounting to 343,859,953.58 and its accumulated depreciation of 224,721,661.18 was reclassified to office machinery and equipment. An asset of WIP

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

20 Property and Equipment (Continued)

amounting to 1,341,402.85 was reclassified to Furniture and fittings. Depreciation adjustment was effected on Land and Buildings amounting to 3,299,179.98 and Software Amortization amounting to 18,656,473.56. Additionally, there was a reclassification of Accumulated depreciation from Furniture and fittings to Software Amortization of 31,067,552.58.

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

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

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

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

Details of the Group's freehold land and buildings and information about fair value hierarchy as at 31 December 2023 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 2023				
Land	-	375,000	-	375,000
Building	-	-	65,624	65,624
	=====	=====	=====	=====
31 December 2022				
Land	-	375,000	-	375,000
Building	-	-	65,624	65,624
	=====	=====	=====	=====

There were no transfers between level 1 and level 2 during the year 2023.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

21 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
COST				
At 1 January	1,454,665	1,355,961	1,446,343	1,347,639
Additions	45,030	55,192	45,030	55,192
WIP Transfer	-	43,511	-	43,511
	-----	-----	-----	-----
At 31 December	1,499,695	1,454,664	1,491,373	1,446,342
	=====	=====	=====	=====
AMORTISATION				
At 1 January	882,869	806,204	877,086	803,195
Charge for the year	101,972	76,665	99,433	73,891
Depreciation on Asset reclassification	(31,067)	-	(31,067)	-
	-----	-----	-----	-----
At 31 December	953,774	882,869	945,452	877,086
	-----	-----	-----	-----
NET BOOK VALUE				
At 31 December	545,921	571,795	545,921	569,256
	=====	=====	=====	=====

22 RIGHT OF USE ASSET

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

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
COST		
At 1 January	939,796	938,642
Additions	76,349	93,704
Lease terminations	(83,752)	(92,551)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

22 Right of Asset (Continued)

At 31 December	932,393	939,795
ACCUMULATED DEPRECIATION		
At 1 January	605,511	457,686
Charge for the year	191,148	206,245
Eliminated on lease terminations	(24,073)	(58,421)
At 31 December	772,586	605,510
NET BOOK VALUE	159,807	334,285
	=====	=====

Amounts recognised in profit or loss.

Depreciation expense on right-of-use assets	191,148	206,245
Interest expense on lease liabilities	47,383	58,915
Gain / (loss) on termination of leases	1,753	6,531
	-----	-----
	240,284	271,691
	=====	=====

The Group entered into one additional commitment that is short term in nature during the year with a lease term of 6 month at Ngong lane plaza. All other property leases in which the Group is the lessee contain fixed payments.

The total cash outflow for leases amounted to Shs 208,618,255 (2022: Shs 204,858,507). There are no restrictions or covenants imposed by lessors and the Group did not enter into any sale and leaseback transactions during the year (2022: Nil).

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.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
0 - 30 days	231,818	366,510
31 - 90 days	13,712	21,679
91 - 180 days	2,324	3,674
Over 180 days	736	1,164
	<u>248,590</u>	<u>393,027</u>
	=====	=====

24 CUSTOMER DEPOSITS

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Savings account	2,210,938	2,743,473	2,210,938	2,743,473
Fixed account	13,174,665	12,998,633	13,297,617	13,113,018
	<u>15,385,603</u>	<u>15,742,106</u>	<u>15,508,555</u>	<u>15,856,491</u>
	=====	=====	=====	=====

The effective interest rate on customer deposits as at 31 December 2023 is 10.81% p.a (2022: 10.4% p.a).

25 BORROWINGS

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Loans:		
Absa Bank Kenya PLC (i)	925,000	765,338
Stanbic Bank Kenya Limited (ii)	170,000	100,000
Old Mutual Holding Limited (iii)	400,000	400,000
	<u>1,495,000</u>	<u>1,265,338</u>
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
The borrowings are repayable as follows:		
Within 1 year	1,095,000	865,338
After 1 year within 3 years	-	-
Over 5 Years	400,000	400,000
	1,495,000	1,265,338
	=====	=====

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

i) Absa Bank Kenya PLC

Absa Bank Kenya PLC Revolving Credit Facility (RCF) for working capital of Shs 1 billion with interest pegged on Absa Bank Rate (ABR) plus a margin of 2.00% closed the year at a rate of 16.00%. The facility has a maximum repayment period of 12 month for each set of drawdowns made.

ii) Stanbic Bank Money Market Line

Money market line of Shs 170 million from Stanbic bank priced at 17.50% for 14 days towards liquidity and cashflow support.

iii) Old Mutual (EA) Holding Limited

The subordinated debt Shs 400 million facility with average interest rate of 18.44% repayable in 5 years is subject to 3 months average interest charged at the prevailing 91 days treasury bill rate plus a margin of 7.5%. Interest on the facility is payable on a quarterly basis with annual repayment of the principal balances to commence after 5 years. The facility is due to mature on 31 March 2028.

26 OTHER LIABILITIES

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Accrued expenses	538	525	-	-
Staff leave provision	19,706	32,195	19,706	32,195
Bonus provision	8,916	8,916	8,916	8,916
Sundry liabilities	1,085,240	1,094,532	1,080,945	1,075,057
Customer loan Prepayments (UNC)	10,629	30,995	10,629	30,995
	1,125,029	1,167,163	1,120,196	1,147,163
	=====	=====	=====	=====

Sundry liabilities include Statutory deduction payable, general insurance premium payable, Supplier, and other creditors payable and tax payable.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

27 LEASE LIABILITIES

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

	GROUP 2023	BANK 2022
	Shs '000	Shs '000
At 1 January 2023	477,613	594,261
Additions	76,349	93,704
Leases terminated	(61,432)	(40,661)
Interest on lease liabilities	47,383	58,915
Payment of lease liabilities	<u>(208,618)</u>	<u>(228,606)</u>
At 31 December 2022	331,295	477,613
	=====	=====

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

	2023	2022
	Shs '000	Shs '000
Year 1	146,295	221,187
Year 2	116,104	148,884
Year 3	64,255	118,288
Year 4	47,160	66,107
Year 5	20,489	30,815
Onwards	13,005	13,696
	-----	-----
	407,308	598,977
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

27 Lease Liabilities (Continued)

Reconciliation to the carrying amount:			
Total undiscounted cashflows	407,308		598,977
Deferred interest expense relating to future period not incurred	(76,013)		(121,364)
	-----		-----
	331,295		477,613
	=====		=====
	=====		=====

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

28 SHARE CAPITAL AND PREMIUM

a) Share capital.

	GROUP		BANK	
	2023	2022	2023	2022
Authorised:	Shs '000	Shs '000	Shs '000	Shs '000
65,999,600 (2022: 65,999,600) ordinary shares of Shs 10 each	659,996	659,996	659,996	659,996
	=====	=====	=====	=====

	GROUP		BANK	
	2023	2022	2023	2022
Issued and fully paid:	Shs '000	Shs '000	Shs '000	Shs '000
65,999,600 (2022: 65,999,600) ordinary shares of Shs 10 each	659,996	659,996	659,996	659,996
	=====	=====	=====	=====

There was no additional capital injection in 2023.

Share premium.

There was no change in share premium during the year.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

29 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of Profit Before Taxation to Cash Generated from Operations

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Profit/(Loss) before tax	(688,623)	15,085	(719,309)	(13,903)
Adjustment for:				
Depreciation on property and equipment	109,748	129,446	109,713	129,403
Depreciation on right of use assets	191,148	206,245	191,148	206,245
Amortisation of intangible assets	101,973	76,665	99,433	73,891
Loss/(gain) on disposal of a property and equipment	12,510	56,388	12,510	56,388
Share of associate company's profit	(4,694)	(2,699)	(4,694)	(2,699)
Interest on lease liability	47,383	58,915	47,383	58,915
(Gain) / loss on termination of leases	(16,669)	(6,531)	(16,669)	(6,531)
Loan loss provisions	(290,209)	(210,018)	(290,209)	(210,018)
Revaluation gain	-	4,750	-	4,750
	(537,433)	328,246	(570,694)	296,441
Working capital changes:				
Increase in loans to customers*	(1,566,590)	(675,847)	(1,566,590)	(675,847)
Net movement in related party balances	(328,429)	291,761	(330,859)	289,221
Increase in other assets*	(46,282)	(64,145)	(40,857)	(62,654)
Decrease in cash collaterals held	(144,437)	(56,969)	(144,437)	(56,969)
(Decrease)/increase in customer deposits*	912,788	(3,984,375)	912,788	(3,984,375)
Increase in other liabilities	(42,812)	(123,907)	(26,967)	(139,793)
Decrease/(increase) in cash reserve ratio-CBK	60,228	132,672	60,228	132,672
Decrease / increase in government securities*	(383,328)	(347,906)	(383,339)	(349,186)
	(2,076,295)	(4,500,470)	(2,090,727)	(4,550,490)
	=====	=====	=====	=====

Share of associate company's profit for 2022 is net of tax which accounts for the difference in the face of Profit and loss account.

(Gain) / loss on termination of leases forms part of other expenses under note

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

a) Reconciliation of Profit Before Taxation to Cash Generated from Operations (Continued)

*Reconciliation	GROUP	BANK
Loans to customers		
Decrease/Increase in loans to customers	590,539	590,539
	-	
Interest for the year	2,927,495	2,927,495
Less accrued interest	480,157	480,157
Interest received	2,447,338	2,447,338
	-	
Loan impairment	(290,209)	(290,209)
	-	
Decrease/Increase in loans to customers	(1,566,590)	(1,566,590)
Deposits		
Increase or decrease	347,936	347,936
	-	
Interest for the year	1,406,973	1,406,973
Less accrued interest	146,249	146,249
Interest paid	1,260,724	1,260,724
	-	
Decrease/Increase in customer deposits	(912,788)	(912,788)
Government securities		
Net cash at start of year	400,000	400,000
Movement in Accrued interest on Treasury bond	(18,309)	(18,309)
Disposal of AFS and Treasury bills	(499,784)	(499,784)
Purchase of investment securities	(150,000)	(150,000)
Sale/Maturity of investing securities	649,784	649,784
Movement in provisions	1,637	1,648
	383,328	383,339
Other assets		
Staff receivables	17,576	17,576
Prepaid expenses	(41,196)	(41,196)
Deposits and sundry receivables	(24,411)	(20,922)
Impairment loss allowance	1,749	3,685
	(46,282)	(40,857)

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

29 Notes To The Statement Of Cash Flows (Continued)

b) Analysis of the balances of cash and cash equivalents

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Local currency cash	275,892	352,551	275,892	352,551
Balances due from banks and financial institutions	292,133	430,610	292,133	430,610
Short term deposits with banks (note 13)	147,475	-	147,475	-
Treasury bills	-	400,000	-	400,000
	715,500	1,183,161	715,500	1,183,161
	=====	=====	=====	=====

C) Movement In Borrowings

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Balance at beginning of the period	1,265,338	692,139
Received in the year	6,326,643	1,100,000
Paid in the year	(6,096,981)	(526,801)
	1,495,000	1,265,338
	=====	=====

30 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Old Mutual (EA) Holdings Limited is the immediate parent of Faulu Microfinance Bank Limited. Ultimate parent is Old Mutual Limited. Old Mutual Life Assurance Kenya Limited ("Old Mutual Life Assurance Kenya"), Old Mutual Investment Group, Old Mutual General Insurance Kenya Limited ("Old Mutual GI Kenya Limited") are fellow subsidiaries of the Bank whereas Old Mutual Life Assurance Limited South Africa ("Old Mutual Life Assurance (SA)") is the subsidiary of the ultimate parent company.

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

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

Faulu Advisory Services Limited which controls Faulu Kenya Trust is an associate of the Bank.

(a) Due from related parties

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Faulu Bancassurance Intermediary Limited	-	-	9,950	7,520
Old Mutual Life Assurance Limited Kenya	238	367	238	367
Old Mutual Investment Group	27	27	27	27
Old Mutual General Insurance Kenya Limited	835	525	835	525
Old Mutual Life Assurance (SA)	-	135	-	135
	<u>1,100</u>	<u>1,054</u>	<u>11,050</u>	<u>8,574</u>
	=====	=====	=====	=====

(b) Due to related parties

	GROUP		BANK	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
Old Mutual Holdings Plc	-	(107,902)	-	(107,902)
Faulu Bancassurance Intermediary Limited	-	-	-	-
Old Mutual Life Assurance Kenya Limited	(1,717)	-	(1,717)	-
Old Mutual Africa Holdings	-	(21,307)	-	(21,307)
Old Mutual Life Assurance Limited (SA)	-	(200,891)	-	(200,891)
	<u>(1,717)</u>	<u>(330,100)</u>	<u>(1,717)</u>	<u>(330,100)</u>
	=====	=====	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

30 Related Party Transactions And Balances (Continued)

Deposits are made in the Group by directors and companies associated to directors. Advances to customers at 31 December 2023 include advances and loans to Directors and staff as indicated below:

(c) Loans to customers

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
- Directors	30	17,899
- Staff	252,350	249,562
	-----	-----
	252,380	267,461
	=====	=====

(d) Interest income

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
- Directors	358	1,093
- Staff	13,440	15,235
	-----	-----
	13,798	16,328
	=====	=====

(e) Customer deposits:

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
- Directors	16,262	92,956
- Staff	50,726	46,034
	-----	-----
	66,988	138,990
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

30 Related Party Transactions And Balances (Continued)

(f) Interest expense

		GROUP AND BANK	
		2023	2022
		Shs '000	Shs '000
- Directors		3,787	10,612
- Staff		3,297	2,246
		7,084	12,858
		=====	=====

		GROUP AND BANK	
		2023	2022
		Shs '000	Shs '000
Group recharges from Old Mutual (EA) Holdings Limited		-	107,902
		=====	=====

(h) Borrowings from related parties

Borrowings from Old Mutual (EA) Holding Limited is disclosed in note 25 (c). Total interest expense paid amounted to Shs 72,629,989 (2022: Shs 56,254,000).

Payments in relation to subordinated loan facility will be made up of all interest accrued and principal amount which is repayable on the maturity date or on such an earlier date to be agreed in writing by the parties provided that such an earlier date shall be at least five years after the utilization date. The facility is unsecured.

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	GROUP AND BANK	
	2023	2022
	Shs '000	Shs '000
Salaries and wages	140,699	155,729
Pension and terminal benefits	52,819	29,665
	=====	=====
Directors' remuneration		
Fees for services as directors	17,433	16,281
	=====	=====

31 CONTINGENT LIABILITIES

The Group is a defendant in various legal suits with an estimated liability of Shs 63.7 million (2022 - Shs 61.5 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 Group had commitments Shs 25 million of software infrastructure developments on digitisation project.

33 SHAREHOLDING STRUCTURE

The shareholding structure is analysed as follows:

	No of Shares	% of Holding
Old Mutual Holdings Limited	50,159,626	76%
Micsha Capital Limited	3,840,000	6%
Food for the Hungry Association	4,800,000	7%
The Faulu Kenya Trust	7,200,000	11%
	-----	-----
	65,999,626	100%
	=====	=====

Notes To The Financial Statements

For The Year Ended 31 December 2023 (Cont.)

35 OPERATING SEGMENTS INFORMATION

The entity's business is not organised on the basis of differences in related products and services or differences in geographical areas of operation.

36 ULTIMATE AND IMMEDIATE HOLDING COMPANY

The immediate holding and parent company is Old Mutual (EA) Holdings Limited, a company incorporated and domiciled in Kenya under the Companies Act, 2015. The ultimate holding company is Old Mutual PLC which is incorporated in South Africa.

37 EVENTS AFTER REPORTING PERIOD

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure in these financial statements.

38 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Shs'000) which is the functional currency of the Group.

39 COMPARATIVES

Comparatives reclassifications in this context are in relation to changes in presentation of previously issued financial statements where applicable.

40 GENERAL INFORMATION

Faulu Microfinance Bank Limited (the "Bank") and its subsidiary are companies domiciled and operating in Kenya and incorporated in Kenya under the Companies Act, 2015. The registered address of the Bank is shown on page 2 whereas the principal activities of both the Bank and its subsidiaries are disclosed in the Report of the Directors.



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