



THE FUTURE IS DIGITAL

2021 Annual report



A MEMBER OF THE  OLD MUTUAL GROUP

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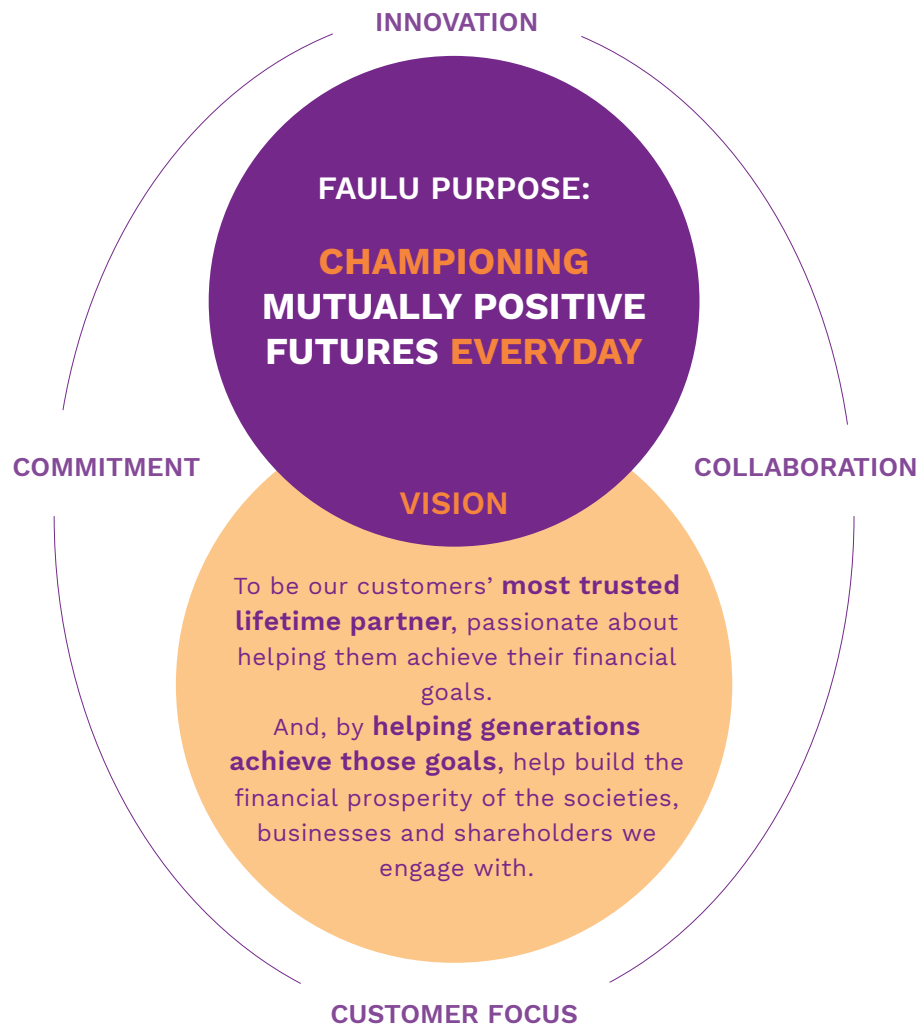
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WHO WE ARE

Faulu at a **GLANCE**



VALUES



1,266
Employees

57
banking
outlets

741
Agents
countrywide

38,104
Mobile Banking
Registered
Customers

Use Faulu
Visa Card, in over
2000
VISA
ATMs
countywide



32
counties
across Kenya

1. Baringo
• Kabarnet

2. Bomet
• Bomet

3. Bungoma
• Bungoma
• Kimilili

4. Busia
• Busia

5. Elgeyo Marakwet
• Iten

6. Embu
• Embu

7. Homabay
• Homabay

8. Kajiado
• Rongai
• Kiserian
• Kitengela

9. Kakamega
• Kakamega
• Mumias

10. Kericho
• Litein
• Kericho

11. Kiambu
• Thika
• Kiambu
• Limuru

12. Kilifi
• Kilifi
• Malindi

13. Kirinyaga
• Mwea

14. Kisumu
• Kisumu

15. Kitui
• Mwingi
• Kitui

16. Kwale
• Ukunda

17. Laikipia
• Nyahururu
• Nanyuki

18. Machakos
• Machakos
• Matuu

19. Makeni
• Emali

20. Meru
• Meru
• Maua

21. Migori
• Migori

22. Mombasa
• Changamwe
• Kengeleni
• Moi Avenue

23. Muranga
• Muranga

24. Nairobi
• Ngong Road
• Kawangware
• OTC
• Kibera
• Kimathi Street
• Jeevanjee
• Kariobangi
• Kayole
• Githurai
• Gikomba

25. Nakuru
• Nakuru
• Naivasha
• Molo
• Njoro

26. Narok
• Narok

27. Nyeri
• Nyeri
• Karatina

28. Siaya
• Bondo
• Ugunja

29. Transnzoia
• Kitale

30. Taita-Taveta
• Voi
• Taveta

31. Uasin Gishu
• Eldoret

32. West Pokot
• Kapenguria



A truly mutual **STRATEGY**

**STRONG
FOUNDATION**

Built on
176
YEARS
of history

Our refreshed strategy builds on a strong foundation of serving customers for more than 31 years and through Old Mutual for more than 176 years via our trusted brand and enviable distribution scale. We consider the environment that we operate in, changing customer needs driven by technology, fierce competition, and sustainability to stay relevant to all stakeholders in the longer term.

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

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

WHY DO WE EXIST?

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

WHERE DO WE WANT TO BE?

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

WHAT WE WILL ACHIEVE

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



Strong financial base



Trusted Brand



Enviably distribution force



Agile and resilient



1,254 committed employees across Kenya



Meaningful contributor to the green economy



Driving Transformation

C

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

A

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

R

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

E

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

S

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

Strategic **PILLARS**

FAULU BANK CARES	ALWAYS PRESENT FIRST	REWARDING DIGITAL ENGAGEMENT	ENGAGED EMPLOYEES	SOLUTIONS THAT LEAD
<p>We demonstrate “care” by executing our Responsible Business framework through our seven focus areas, to deliver shared value and make a positive impact to all of our stakeholders.</p> <p>Our focus areas are: Responsible Investing, Environmental Impact, Financial Education and Inclusion, Education, Skills Development, Diversity and Inclusion and Entrepreneurship.</p> <p>To drive financial inclusion and support customers through financial education, we offer them accessible and affordable solutions.</p>	<p>We will maintain our dominance across our physical channels. We plan on translating our success in these channels with digital solutions that provide a seamless and integrated customer experience across all touch points.</p> <p>Enhancing our physical reach with a digital presence will help us to be “always present”.</p> <p>This will be supported by a strong brand presence so that when customers think of financial services, they think of us first.</p>	<p>We will convert our understanding of our customers’ goals and circumstances to provide personalised, regular and meaningful engagement.</p> <p>We will do this through financial advice, financial education, rewards, data driven nudges and a full suite of targeted products.</p> <p>This will enable us to offer customers the right solutions at the right time, enabling them to reach their financial goals.</p>	<p>We want all our employees to connect with, and be fully aligned to our purpose, vision and strategy. By creating an environment where employees find a deep sense of connection and meaning in our purpose, we can ensure that they will be passionate about delivering meaningful customer experiences at every point of the customer journey.</p> <p>We are also driving the requisite culture shifts to create an agile and execution-focused organisation.</p>	<p>For solutions where we are already competitive and market leading, we will focus on enhancing their flexibility and ease of use. We will continuously improve solutions and launch innovative and refreshed propositions.</p> <p>In this way, customers will be able to meet all their primary financial services needs with us with easy access.</p>

OUR OBJECTIVES

<h1>C</h1> <p>To be known as a financial services provider that truly cares for its stakeholders and delivers shared value.</p>	<h1>A</h1> <p>To establish brand preference in Kenya and the continent through increased depth and scale of face to face and digital distribution.</p> <p>This will enable us to establish and maintain a leading market share.</p>	<h1>R</h1> <p>To deliver a meaningful and personalised customer experience, that is integrated across digital and face to face mediums.</p>	<h1>E</h1> <p>Building a compelling employee value proposition that attracts and retains key talent. Creating an engaged workforce that embraces new ways of working to deliver on strategic initiatives and always puts our customers first.</p>	<h1>S</h1> <p>The delivery of new and refreshed Retail, and MSME product propositions that will differentiate our savings, lending and protection solutions.</p> <p>These propositions will enable key shifts that our customers require including customised solutions and the best advice delivered through a seamless experience.</p>
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Our service OFFERING

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

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

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



1

Transactional & Savings or Deposit Accounts

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



2

Investment Account

- Fixed Deposits Accounts
- Call Deposits Accounts
- Contractual Accounts



3

Credit Facilities

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



4

Bancassurance

General Insurance Products

- Medical Insurance
- Motor Insurance
- SME Insurance

Life Insurance Products

- Education/Endowment policy
- Last Expense Policy
- Personal Accident



CORPORATE INFORMATION

Board of DIRECTORS

George A. Maina	Non- Executive Chairman	
Apollo N. Njoroge	Managing Director	
Peter J. Mogan*	Non- Executive Director	
Peter Gachuba	Non-Executive Director	
Sophia Mukoba	Non- Executive Director	
Njeri Ndehi	Non-Executive Director	Appointed on 9 February 2021
Arthur Oginga	Non-Executive Director	Appointed on 12 July 2021
Michael Monari	Non- Executive Director	Appointed on 14 April 2021
Kenneth Kariuki	Non- Executive Director	Appointed on 17 June 2021
Caroline Gathii	Non- Executive Director	Appointed on 6 June 2021

Audit Committee

Sophia Mukoba
Peter J. Mogan

Innovations and Technology Committee

George A. Maina
Peter Gachuba
Michael Monari
Apollo N. Njoroge

Risk and Compliance Committee

George A. Maina
Njeri Ndehi
Kenneth Kariuki
Caroline Gathii
Apollo N. Njoroge

Governance Remuneration and Nomination Committee

George A. Maina
Sophia Mukoba
Apollo N. Njoroge
Arthur Oginga***

Credit Committee

Peter Gachuba
Michael Monari
Apollo N. Njoroge

Registered office

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

Company Secretary

Nkirote Mworira Njiru
UAP Old Mutual Towers
Upper hill Road,
P.O. Box 43013 - 00100
Nairobi, Kenya

Principal Banker

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

Auditors

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

Principal Lawyers

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

*Canadian ***Co-opted



Board of **DIRECTORS**



» **Kenneth K. Kariuki**
Non Executive Director



» **Sophia A. Mukoba**
Non Executive Director



» **Caroline Gathii**
Non Executive Director



» **Michael Monari**
Non Executive Director



» **George A. Maina**
Chairman

» **Apollo Njoroge**
Managing Director

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

» **Arthur Oginga**
Non Executive Director

» **Njeri Ndehi**
Non Executive Director



Board of Directors' EXPERIENCE



» **George A. Maina**

Chairman

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

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

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

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

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



» **Apollo Njoroge**
Managing Director

Mr. Njoroge, an experienced financial executive with over 24 years' experience in Retail, Micro, Small and Medium Enterprises Banking across East Africa.

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

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

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

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

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

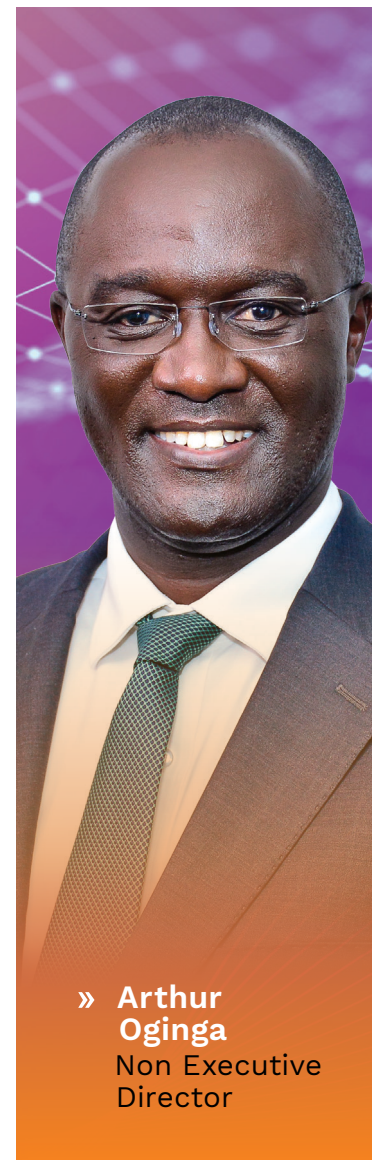


» **Caroline Gathii**
Non Executive Director

Caroline has 20 years multi-sectoral and regional professional experience in governance, risk and financial management. She excels at creating systems and processes that bring order, efficiency and profitability to clients' organizations by helping them to manage risks and not crisis. She has hands on experience in various sectors has extensive skill in: risk mapping, risk implementation support, risk evaluation, risk monitoring, business continuity plans, public financial management, governance, assessments, training amongst others. She commenced her career at PwC, then moved to KPMG East Africa and then to the European Union. She is currently managing a boutique risk advisory company, FirstIdea Consulting (FIC) Limited.

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

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



» **Arthur Oginga**
Non Executive Director

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

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

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

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





» **Sophia A. Mukoba**
Non Executive
Director

Sophia Mukoba is a seasoned finance professional with over 18 years' experience spanning across Audit, Control Management Accounting and Commercial Finance. Sophia has held various senior Finance roles and is currently the Finance Director for Unilever East Africa. Prior to joining Unilever, she worked at British American Tobacco Kenya Limited and Deloitte & Touche.

She holds a Bachelor of Commerce degree (Accounting) and a Masters in Business Administration both from University of Nairobi.

Sofia is also a Certified Public Accountant (Kenya) and a member of the Chartered Institute of Management Accountants (CIMA). Her expertise in financial and audit matters is of great value to the Faulu Board.



» **Ken K. Kariuki**
Non Executive
Director

Ken Kariuki is a professional business, brands and marketing strategist, with a robust career spanning over 25 years. Ken is passionate about building brands and businesses and has been involved in consulting and CEO advisory for the last 15 years. He is a partner at Brand Integrated Consulting, an award-winning brand and business strategy advisory firm with a footprint across Africa. Prior to consulting for ambitious organizations, he managed the sales, market share and profitability performance of notable brand portfolios from companies, such as Nestlé, Reckitt Benckiser and East African Breweries.

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

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

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

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



» **Peter J. Morgan**
Non Executive
Director

For the past thirty-seven years, Peter has been active as a lawyer, businessman and mediator in BC and Ontario.

He has worked closely with his business clients in a wide variety of tasks from business formation through financings, mergers and acquisitions, contract negotiations, international trade, dealings with government, tax planning and securities compliance. Peter's clients range from smaller independent businesses to publicly listed companies. He has been involved in numerous prospectus exempt offerings and other financings.

Peter's experience as an entrepreneur has led to an approach that is practical: finding legal solutions that make business sense. This practical, entrepreneurial approach, combined with a relational style, is brought to business negotiations.

Peter also has extensive experience facilitating leadership development, strategic planning, conflict management and community building workshops for business, government and not-for-profit organizations on six different continents.

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



» **Michael O. Monari**
Non Executive
Director

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

He has worked for several leading corporations in Africa's financial services sector, including with the KCB Group, Credit Bank Plc, and Ecobank Group. Internationally he worked with International Trust Bank Plc. in Nigeria, African Management Services Company (AMSCO) Ghana, and lately with Ecobank Group in Togo, Ghana, Malawi Kenya, and Uganda.

He serves in various boards and has professional memberships include; Chartered Institute of Bankers (ACIB) the UK; Institute of Directors, Kenya, Nigeria & Uganda. He is also a member of the Kenya Institute of Management. He is a member and serves in various sector boards of KEPSA (Kenya Private Sector Association), KNCCI (Kenya National Chamber of Commerce), (EAA) East African Association and (BCCK) British-Kenya Chamber of Commerce. He is a member of premier Karen and Muthaiga Country Clubs; among others.

He is currently the Chief Executive Officer of Longitude Finance, Kenya.

He believes in giving back to society and to that he is a member and serves as President of The Rotary Club of Lavington Jioni.





» **Njeri Ndehi**
Non Executive
Director

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

At Citibank South Africa, Njeri worked in Corporate Finance where she was involved in syndicated loan transactions, euro loans and club deals. Njeri has several years of experience in relationship management in Absa Kenya and Stanbic Bank. At Stanbic, she also served as the Head of Corporate Banking and was responsible for customers in various sectors such as manufacturing, agriculture, non-bank financial institutions and non-governmental organizations. In addition to working in the financial space she has over 10 years' experience in the educational sector.

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

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



» **Peter Gachuba**
Non Executive
Director

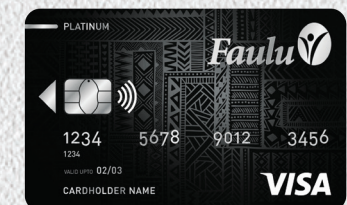
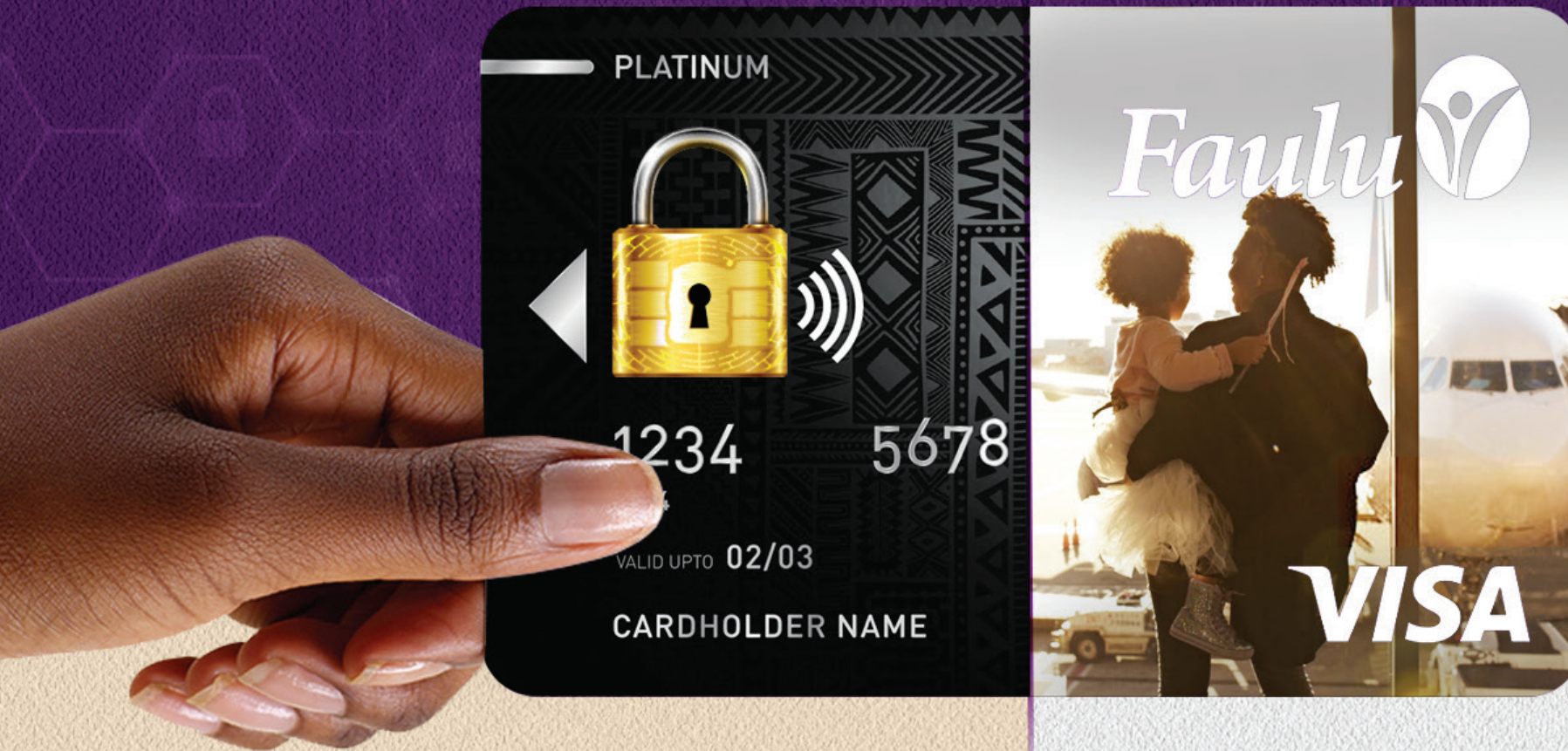
Peter is an investment banker with many years of business experience. He has worked in Commercial banking, Investment banking and Private Equity for nearly 20 years.

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

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

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

Your online payment experience just got safer with **VISA 3D secure**



VISA 3D secure offers enhanced security through an additional SMS/ email authentication process when you pay online with your Faulu Visa Debit Card on websites. This ensures that only you as the cardholder will be able to complete the online purchase.

Enjoy your shopping experience today.

Senior MANAGEMENT



» **May W. Nyaga**
Head of
Human
Capital



» **Maureen
A. Mbori**
Head of
Treasury and
Institutional
Banking



» **Nahashon
O. Ojode**
Head of
Credit



» **Apollo N.
Njoroge**
Managing
Director



» **James
Murage**
Head of
Legal



» **Julius W. Ouma**
Head of Finance and Strategy

» **Rose G. Kimani**
Head of Business Growth, & Development and Bancassurance

» **Benson K. Wakaba**
Head of Risk and Compliance

» **Paul Kahoro**
Head of Audit

» **Paul G. Kariuki**
Head Operations and Customer Experience

» **Fridah W. Mutua**
Head of Marketing





» **Apollo N. Njoroge**
Managing Director

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

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



» **Julius W. Ouma**
Head of Finance & Strategy

Julius Ouma was appointed as the Head of Finance & Strategy for Faulu Microfinance Bank effective September 13th, 2021.

Julius has over 15 years of extensive experience in financial services, communication and manufacturing industries.

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

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

Thereafter, he joined Barclays Plc (currently known as Absa) as the Head of Finance for Retail and Business banking and later took on more responsibilities as the Head of Business Insights and Analytics for the entire Bank.

Prior to joining Faulu Microfinance Bank, Julius was the Finance Director at MultiChoice Kenya where he oversaw Finance and Strategy for core business units in Kenya (DStv, GOtv, Showmax and Local Productions Kenya Ltd).

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



» **Rose G. Kimani**
Head of Business Growth & Development & Bancassurance

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

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

Some of her achievements include; Pioneering the Check -off Lending and Automation of Bancassurance system in Faulu. She has been a key resource in the Faulu Transformation journey. Rose also prides herself in being a solid mentor and coach.

She holds a Master's degree in Social Dynamics and a Bachelor of Arts degree in Sociology.

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

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



Benson joined Faulu as the Head of Risk and Compliance with effect from 1st February 2021. Benson has over 13 years of financial services experience covering the Middle East and Africa. Benson has worked with two global investment banks, 39 commercial banks and 20 insurance companies on various aspects of risk management and internal controls. His previous role includes being an Associate Director with KPMG Bahrain and prior to that, being a Senior Manager with KPMG Kenya.

While at KPMG both in Kenya and Bahrain, Benson assisted numerous banks in implementing best in class risk management and compliance measures. Benson has deep expertise in credit risk, market risk, operational risk and other key risks in Banking. Benson also has experience in investment banking gained while working in the Middle East for an investment bank with Global presence. Benson supported numerous banks in developing and implementing their IFRS 9 models across East Africa and has also assisted eight banks in developing and implementing their capital management frameworks. Benson is an experienced trainer and has trained the Boards of 27 banks on risk management and capital management as well as over 1000 branch managers on customer service, branch management, risk management and compliance management.

Benson is currently pursuing a Master of Business Administration with the University of Birmingham UK. He holds a Bachelor of Commerce from University of Nairobi, holds a certification in Operational Risk and is a Certified Public Accountant among other qualifications.

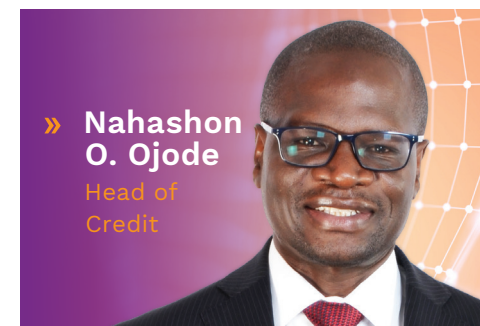


Maureen joined Faulu in October 2016 as the Head of Treasury & Institutional banking.

She has over 10 years' experience in the banking industry after she previously worked for National Bank as Fixed Income & Money Market Dealer, Eco- Bank Kenya as Asset and Liability Officer, NIC Bank as Fixed Income & Money Market Dealer and Treasury Officer at I&M Bank.

Maureen has an MBA in Strategic Management and a BSC in Information Technology. (First Class honors)

She has attended a number of trainings including derivatives training courtesy of NSE and Dreadnought Capital South Africa Bloomberg, Reuters Proficiency Training and Thomson Reuters Seminar.



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

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

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

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





» **May W. Nyaga**
Head of
Human
Capital

May Nyaga is a Fellow of the Institute of Human Resource Management and a passionate Human Resource practitioner with 15 years of progressive experience in overseeing and directing HR operations across different sectors that vast from G4S Security Systems, Rentokil Initial (K) Ltd, Rafiki Microfinance Bank and Letshego Kenya Ltd.

Prior to joining Faulu, she was the Head of Human Resources at Copy Cat Limited a leading IT System Integrator.

May excels in providing leadership and guidance on HR Management and developing frameworks and strategies that align to the business strategy building a culture of continuous improvement, offering efficiency that drive organisation growth, employee productivity and engagement. Her experience spans from successfully created fully fledged Human resource Departments and driving innovative initiatives that address today's business challenges through attracting and retaining talent while achieving business and profitability objectives.

May is a Certified Professional Coach, Certified Genos Emotional Intelligence Practitioner, ISO9001:2015 Lead Auditor and has Participated in Various HR and Leadership Trainings.

She holds a Bachelor of Commerce in Finance and is completing an MSc. in Human Resource Management at the University of Nairobi. She is a contributor to the Daily Nation, panelist and moderator in both local and international conferences where she shares her experiences and knowledge in HR.



» **James Murage**
Head of
Legal

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

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

James brings to the team a wealth of legal experience in banking and corporate law having been an in-house counsel for more than 10 years.

He holds a Bachelor of Laws Degree (LLB) from the University of Nairobi and is a Certified Public Secretary (CPS).



» **Paul Githinji**
Head of
Operations
& Customer
Experience

Paul Githinji joined Faulu Microfinance Bank as the Head of Operations with effect from 08th November 2021. Paul is a highly experienced banker with over 19 years' experience in Branch Operations, Central Operations, Customer Experience, Internal Controls, Business Process Innovation and executing projects.

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

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

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



» **Fridah W. Mutua**
Head of
Marketing

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

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

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



» **Paul Kahoro**
Head of
Audit

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

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

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

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



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CHAIRMAN'S Statement

To our shareholders and clients, to my fellow Board members, our leadership, staff, and partners as well as the communities we serve, I am pleased to present to you the Faulu Microfinance Bank Limited (the “Bank”) 2021 Annual Report and Financial Statements for the year ended 31 December 2021. The financial statements include the consolidated financial statements of the Bank and its subsidiary (together, the “Group”).

2021 was another year of extraordinary global turbulence, with recovery from COVID-19 a mixed picture across the globe. Many of our colleagues were adversely impacted in their personal or work lives. Even now, we continue to see new COVID-19 variants emerging and we have had to adapt to a constantly changing landscape. Throughout this period, the Board and the Management Team have continued to focus on protecting the interests of shareholders, while ensuring the wellbeing of colleagues and supporting our customers, clients, and communities.

Financial performance

Overall, our results show evidence of resilience, despite the performance remaining below target against a challenging operating environment. Our underlying Group loss was Kshs.490 million compared to a bank loss of Kshs. 522 million. The loss was attributed to a low interest income due to a decrease in the loan book. The loan book reduced by 10% from Kshs.19.5B in 2020 to Kshs.17.5B in 2021, the cost funding continued to affect the Bank's performance.

We were delivering against our strategic priorities until the pandemic brought about considerable challenges and, as a result, the turnaround took longer than previously anticipated. It is clear to us that the refreshed strategic priorities we set out at the start of 2021 are right. Our focus is now on executing against the set priorities.



Digitization of the Bank

We are responding to an increasingly digital world through continued investment in the future of the Bank. We have stepped up our innovation and technology investment and made it easier for customers transact with us through our Mobile App (Faulu DigiCash App) launched in the year 2021. This App together with the automation of our processes through the introduction of an Electronic Document Monitoring System (EDRMS) and the Customer Relationship Management System (CRM) are the tools that will improve our customer experience and bring about the desired growth in most of the bank's KPIs.

Board commitment

We continue to enhance our governance and culture. Members of the Board attended several board and committee meetings held virtually in the year 2021. I am confident that, with the plans set in place we will support the Management to accelerate our strategic performance and create long-term and sustainable value for our stakeholders.

Operating Environment

The Kenyan economy was projected to grow at an average of 5.8% in 2021 supported by continued recovery in the accommodation and food sector. The key challenge remains the Covid 19 pandemic, as well as the irregular weather conditions being experienced in most parts of the country.

Suspension of Negative Listing, on CRB (Credit Reference Bureau), of Loans below Kes 5 million

Following the President's directive that regulators should implement measures to provide relief to SMEs whose loan performance was impacted by COVID-19, the Central Bank of Kenya released a press statement and a circular, on 8th November 2021, to all banks and credit reference bureaus directing the suspension of negative listing of loans below Kshs. 5M for a period of 1 year – from 1st October 2021 to 30th September 2022. The directive will be implemented as follows:

- a. Loans that become non-performing between 1st October 2021 and 30th September 2022 will not be negatively listed during this period.
- b. In addition, all loans that were performing by 30th September 2020, but became non-performing, thereafter, will be suspended from listing from 1st October 2021 to 30th September 2022.

Inflation and Interest Rates

Average 2021 annual inflation rate stood at 5.6%, an increase from December 2020 inflation rate of 5.4%. The relatively high inflation can be attributed to the high fuel prices experienced through most of the year, coupled with the erratic weather conditions experienced in the second half of the year which led to food commodity prices spiking.

During the year, the Monetary Policy committee maintained the same Central Bank Rate (CBR) similar to the year 2020. In November the Monetary Policy committee retained the CBR at 7%, indicating that the previous cuts were having the intended effect on the economy. The committee concluded that the current accommodative monetary policies together with the fiscal measures are still being transmitted and continue to support the economy.

Additionally, the Cash Reserve Ratio was maintained at 4.25% same as the year 2020. This was reduced from 5.25% in March 2021 to inject liquidity to banks for onward lending to businesses and households that were adversely affected by the Coronavirus pandemic.

The Kenya Shilling depreciated by 3.6% against the US Dollar to close at Kshs. 113.1 in 2021, compared to Kshs.109.2 at the end of 2020 attributable to increased dollar demand in the region following the reopening of major economies in 2021, coupled with a faster increase in imports as compared to exports.

5.6%
Annual
Inflation
Rate
in 2021

Increased
Inflation



Financial Results

The non-performing loans ratio deteriorated from 20.49 % in December 2020 to 21.91% in December 2021. This is attributable to delayed payments resulting from the effects of COVID 19 pandemic that has seen economic slowdown leading to many businesses deficient performance, employees lose jobs or experience pay cuts, negatively impacting clients from honouring their financial obligations.

Total Bank’s assets decreased by 5% to Kshs. 27.8 billion in December 2021 compared to Kshs. 29.3 billion in 2020. The gross loans and advances to customer decreased by 10% from Kshs. 19.5 billion in 2020 to Kshs. 17.5 billion in 2021. The banks customer deposit declined by 6% from Kshs. 22.4 billion in 2020 to Kshs. 21.0 billion in 2021.

Industry Non-Performing Loans (NPLS)

High Non-Performing Loans remains a challenge in the industry with Portfolio at Risk (PAR) averaging at 14.1%. With trade, manufacturing, agriculture, and real estate as the major sectors contributing to the Non-performing Loans. The High NPLs were attributed to the pandemic which adversely affected businesses and individuals in Kenya and the world which limited their ability to repay loans. Banks have stepped up debt recovery efforts and improved on credit scoring.

2022 outlook and Acknowledgement

Our outlook is bright despite the uncertainties that may prevail in relation to COVID-19 effects and the geopolitical landscape. On the other hand, we see plenty of opportunities that are compelling. Global growth is expected to continue in 2022 albeit slower after the sharp recovery we saw in 2021. We will leverage on innovation and digital technology to reduce operational cost and

improve efficiencies. A push in customer growth on the mobile application platforms and automated credit scoring are some of the measures that the bank will employ to grow its deposits and disbursements.

Increase in customer touch points through rollout of agencies, enhancing our Visa Debit cards a growth of customers on our mobile banking platform, improved customer relationships and the diversification of our revenue streams will and improve the banks performance.

On behalf of the Group Board of Directors, I would like to thank the management and staff for their commitment to growing our business. Thanks to these efforts and the full support from our Board of Directors together with our shareholders and stakeholders, the bank is well positioned to face the future with poise.

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






Thank you and God Bless You.

 **George Maina**
Chairman

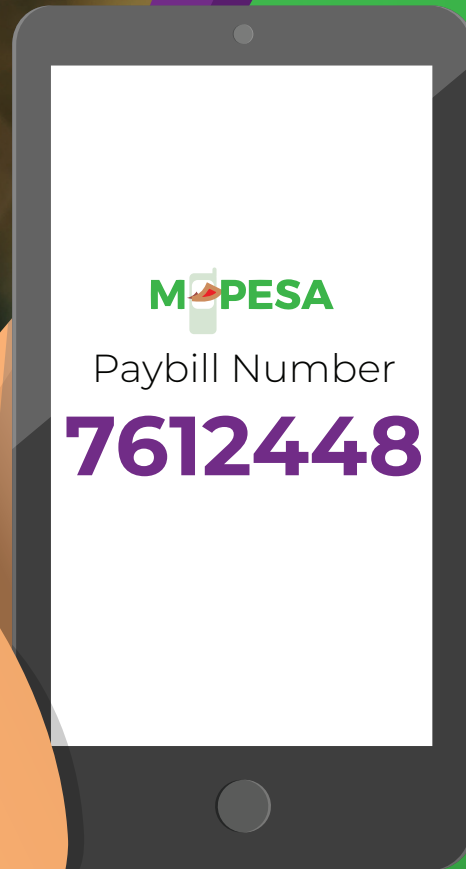
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How it works

Step 1	Step 2	Step 3	Step 4	Step 5
				
Shop Shop online	Card details Enter your Faulu Classic or Platinum Debit details during checkout	One-time password Receive a one-time password (OTP) on your mobile or email account	Validate Enter the one-time password (OTP) on the screen	Done! Transaction completed

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for your Motor
Insurance
Premiums
through:



For Motor
payments,
use your
VEHICLE
REGISTRATION
NUMBER
e.g. KAA 123A

Note:
This Paybill Number is for
Insurance payments **ONLY**

Faulu  **BANCASSURANCE
INTERMEDIARY LTD**
A subsidiary of Faulu Microfinance Bank

MANAGING DIRECTOR'S Statement

Dear Shareholder,

I take this opportunity to present a review of our business performance for the year ended 31st December 2021.

Operating Environment

It has been two years since the first case of Covid 19 was reported in the country.

The Kenyan economy grew by 6.7% in 2021 after 0.3% contraction in 2020. Growth was driven by services on the supply side and by private consumption on the demand side, both benefiting from supportive policies and eased COVID-19 restrictions. Inflation climbed to 6.1% in 2021 from 5.3% in 2020, reflecting increased input costs. The fiscal deficit nudged down to 7.9% of GDP in 2021 from 8% in 2020 due to improved revenue, reversed tax cuts as the economy recovered, and rationalized spending. Public debt surged to 68% of GDP at end-June 2021 from 63% in 2020, driven by the primary deficit.

International reserves reached \$8.8 billion as at end-November 2021 against \$8.1 billion in 2020 (5.4 months of import cover), reflecting the SDR allocation of \$737.6 million, about half of which was used to finance the fiscal deficit. The exchange rate depreciated by 3.7% year on year in 2021. The banking sector is profitable, liquid, and well-capitalized; yields on government securities and the NSE-20 index, and market capitalization, increased. The number of people in extreme poverty declined to 16% in 2021 from 17% in 2020, and unemployment fell to 12.3% from 14.3% over the period, attributable to per capita income growth, social safety-net programs, and economic recovery.

In 2021 technology enabled seamless servicing of customers and with this, some of our staff worked remotely given the social distancing guidance to contain the pandemic. We continue to uphold COVID-19 safety protocols for staff and customers in line with guidance from the ministry of health.



Financial Performance

The group recorded a loss before tax of

▼ **Ksh. 490 Mn**

as compared to a loss of **Ksh.446Mn** recorded in 2020.

Loan Book

In 2021, the loan book shrunk by

▼ **Ksh. 2.02 Bn**

to close at Ksh. 17.53Bn compared to **Ksh.19.55Bn** in 2020.

Disbursements for 2021 declined slightly to **Kshs.10.73Bn** from **Kshs.11.0Bn** in 2020.

Deposit Book

The deposit book of the bank **declined** by

▼ **1.41** Bn to close 2021 at
Kshs. **1.41** Bn Kes.20.99Bn from
22.38Bn in
2020.

Non-Performing Loans (NPLs)

NPLs improved by

▲ **170** Mn in 2021 to close at
Kes. **170** Mn **Kes.3.91Bn** from
Kes 4.08Bn in 2020

with PAR closing 2021 at **21.91%** from **20.49%** in 2020 mainly because of delayed payments resulting from the effects of COVID-19 pandemic that has seen many businesses slow down, employees lose jobs or experience pay cuts, negatively impacting clients from honoring their financial obligations.

Cost income ratio (CIR)

Cost income ratio closed at 99.0% in Dec 2021 against a plan of **75.7% YTD**.

The bank has continued to manage lower operating expenses against plan through cost leadership. By the end of the year 2021 the bank had saved **12%** of the budgeted year to date operating expenses, CIR was affected by lower Interest and non-interest Income.



People and Culture Update

The price of success is good leadership and hiring the right leader is the most important decision an organization can make because they are critical to the delivery of strategy.

In 2021 we closed a few critical hires in our leadership team we filled in vacancies of the Head of Finance and Strategy, Head of Human Capital and Head of Operations and Customer Experience. We also welcomed new Board Directors: Mr. Michael Monari Ms. Njeri Ndehi, Ms. Caroline Gathii, Mr. Kenneth Kariuki and Mr. Arthur Oginga who have vast experience in leadership and business.

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

Digital Update

The past few years have seen a growing interest in technology-driven innovation in the Kenyan banking space especially with increased phone penetration in the country which stands at 120% according to the Communication Authority of Kenya. The advent Covid -19 catalyzed the use of mobile banking in the country when movement was curtailed in a bid to stay safe and comply with WHO and the Governments regulations. To stay abreast with ever-changing customer preferences and new technology, the bank had to digitize its processes hence the birth of the one of a kind mobile banking app.

Approximately 82.9percent of Kenya's adult population has access to at least one financial product.

Our digital strategy rollout was accelerated by the heightened need for our customers to access services remotely and transact conveniently as they observe the Covid -19 guidelines to stay safe. Apart from introducing our superior Mobile App dubbed **Faulu DigiCash App** we launched the **Electronic Document and Records Management System** (EDRMS) to enhance the protection and management of customers records. We also introduced the **Customer Relationship Management system** (CRM) a platform that has enabled the bank to effectively manage its interactions with customers and potential customers.

We continue building on this foundation as digital is a core pillar in our integrated financial services strategy.

Business Strategies Going Forward

- The bank's strategy is to control spillages and follow up on arrears from day one. Relationship management for clients and schemes to ensure loan instalments are paid on time.

- Strive to achieve an optimal mix in funding, drive lower finance costs which is dependent on long term growth of current and savings accounts (CASA) and cheap deposits.
- The bank looks to grow in non-funded income to reduce over-reliance on interest income. Deposit mobilization initiatives to support growth of the deposit book are being implemented with high focus on CASA.
- Cyber Security continues to be a concern therefore, enhancements of controls within the bank are ongoing in line with the Old Mutual Africa Cyber Security Program.
- Cost leadership: Continually manage charges on contracted services
- Pipeline of new funds put in place include term deposits. Cash flow management through interbank placements and bond trading to grow current and savings accounts.

Outlook


Our strategy and business model remains resilient to external market shocks. As a result, we are optimistic about winning back momentum lost during 2020 and 2021 due to the global pandemic.

We are devoted to investing in our business and personnel to better serve our clients and are grateful for the support from the government and our regulators.

We remain focused on growing digitally, implementing our integrated financial services strategy and our customer experience. Underpinning this is the development of our people and culture which is core to the delivery of the bank's strategy. While the operating environment does present some risks both regionally and globally our business has shown that it is resilient over the pandemic period and as such, we remain optimistic that we will be in a position navigate the challenges that this presents.

Appreciation

My gratitude goes out to the management and staff for their resilience and continuous hard work in 2021. I thank our Board of Directors for their support, oversight, and continuous contribution to the growth of our business. I wish to thank our partners, and government agencies. On behalf of Management and staff, I heartily appreciate our customers for entrusting us to help journey with them to achieve their financial goals. Lastly, I thank our shareholders for their continued support.



Apollo N. Njoroge
Managing Director

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that you can gift your loved
one **and it can save them a
great deal?**

Their health
Our wealth





Your health

Your wealth

When you realise that even with excellent medical insurance, just one critical illness can be a tremendous financial burden.

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Critical **ILLNESS COVER**



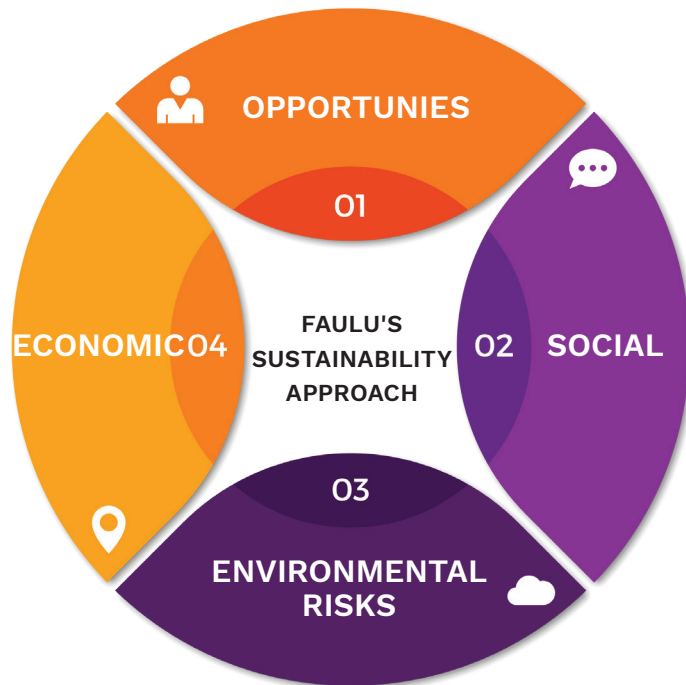
» **OUR
SUSTAINABILITY
Review**

Our sustainability agenda looks to enhance financial inclusion and help Kenyans achieve their ambitions by fulfilling their financial needs in a responsible and sustainable manner. We enable people, businesses, and society to grow progressively and sustainably in the long-term.

As a member of the Old Mutual Group, part of our commitment to social responsibility is to actively support our company-wide global strategy. Responsible business practices are core components of the bank's risk management strategy which is underpinned by our values.

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

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



01/ Responsible to our customers

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



02/ Responsible investment

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



03/ Responsible to our employees

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

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



04/ Responsible to our communities

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



05/ Responsible environment management

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

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



Our impact through **RESPONSIBLE BUSINESS**

We leverage our position within the financial services industry to nurture an ecosystem that multiplies value for both our customers and the communities within which we operate.

Our approach is to balance the urgent necessity for positive impact today with the need for sustainable solutions for the health and prosperity of future generations and for the planet.

Our responsible business agenda

Customers: Loans Disbursed in 2021 Kshs.10.73Bn

Employees: Salaries and Benefits Kshs. 788Mn

Fees and Commissions Paid Kshs.177.05Mn

Our customers

Our customers come first in everything we do. Our longstanding history and achievements have been largely supported by our customers and the relationships we have established with them over the 31years that we have been in operation.

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

2021 was a challenging year trying to build back after the effects of Covid -19. However, our clients have been very supportive and loyal as shown by our strong balance sheet of Kshs. 21.5Bn in Deposits and Kshs.17.84 Loans.

To ensure uninterrupted service to customers, banks introduced innovative solutions to support business continuity and enable them to transact conveniently at the comfort of their spaces (homes / offices).

Faulu also made significant strides in the **digital transformation journey** through the launch of Project Exodus. This project paved way to the introduction of a superior Mobile App dubbed **Faulu DigiCash App**, the launch of the **Electronic Document**

and Records Management System (EDRMS) to enhance the protection and management of customers records. The same project saw the implementation of the Customer Relationship Management system (CRM) a platform that has enabled the bank to effectively manage its interactions with customers and potential customers.

Our Employees

Staff engagement is key in ensuring the heartbeat of an organization is strong and reflected in our interactions with customers, vendors, and shareholders. The organization invested significantly in technology to improve internal operational efficiency and deliver on the digital ambition through people capabilities. 2021 saw a massive change in the way that we work and collaborate with one another.

We:

- Scaled up the usage of collaboration tools such as Microsoft Teams allowing our staff to work securely from the comfort of their homes in response to the COVID - 19 pandemic.
- Enhanced our medical cover to provide for Covid-19 testing for all employees. This allowed the organization to support employees who tested positive for Covid-19 to access proper medical attention to hasten their recovery process.

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

- As a way of enlightening and refreshing the staff on the bank's main purpose, Internal vision and mission surveys were introduced. This came with a variety of gifts that were meant to help the staff participate in the survey. Several staff who participated managed to walk away with some gifts.
- Stepped up staff engagement through branch visits, town halls, and engagement sessions held by departmental heads. The exercise was meant to ensure employee retention and increase employee engagement.
- There has been an upward progression on E-learning programs for staff. This showed the thirst for information amongst our staff which led to an increase in the number of completed courses within the bank in 2021.
- Several E-learning modules were rolled out covering cyber security, fraud & theft, anti-bribery and corruption, our gifts policy, whistleblowing, conflict of interest, and internal irregularities. The modules were meant to enhance employee's awareness and alertness to areas of financial crime and improve the financial crime risk culture of the organization.

Our Suppliers and Service Providers

In compliance with the legislation on Anti Money Laundering, Faulu has continued to implement sanctions that ensure screening of politically exposed persons (PEPs), suppliers and service providers during the onboarding process.

Additional information for legal entities was introduced as part of the mandatory requirements to determine the Ultimate Beneficiary Owner(s) to aid in screening the potential suppliers and service providers during the Know Your Vendor (KYV) process.

To ensure great customer experience, the procurement function conducted supplier due diligence through a supplier enhanced vetting process. The report has assisted the business in supplier development and upskilling to ensure the company works with service providers who meet the set minimum requirements.

To promote business sustainability, the business has taken keen interest to lead in the War on Waste (WOW) by focusing on cost saving initiatives and cost control.

Economic Sustainability INITIATIVES

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



- **1st Runner Up** – Outstanding Young Banker of the year Award which was awarded to Wilson Mutai (Branch Manager Faulu Kabarnet). 2020
- **1st Runner up** – Best Microfinance Bank in Agriculture and Livestock Financing 2020



- **1st Runner up** – Best Microfinance Bank in Product Innovation 2020
- **1st Runner up** – Best Microfinance Bank in Digital Banking 2020
- **Think Business Award 2016** as the fastest growing Microfinance Bank
- The Best Microfinance Bank in Kenya – **Think Business Award 2019**
- **6 Wins** of the Best Microfinance Bank in Financial Reporting (FiRe award)



- **Best Microfinance Bank** in Real Estate Financing
- Most Preferred Microfinance bank in **Automotive Financing**
- Best Microfinance Bank in **Digital Tech Solutions**
- **SME of the year** award in Corporate Citizenship and Environmental Focus
- Winner in **Financial Management** –SMOYA Award
- **Top Employer** Award



Taxes

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

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

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

Social Sustainability INITIATIVES

Employee Welfare

Employee welfare is in the interest of our employees, the employer, and the society. It enables staff to perform their work in a healthy and favourable environment. Hence, it improves efficiency of workers and keeps them content, thereby contributing to high employee morale.

We are determined to make Faulu an employer of choice with a great environment to work. We constantly encourage our staff to bring their best self to work to foster healthy relationships at work and ensure superior customer experience. We view one another as part of one big family, and each member's welfare as our collective responsibility.

Our Staff welfare club participates and contributes to the welfare of the members in times of need and during celebrations.

We stand with one another when we:

- Welcome newborns
- Celebrate marriages or weddings and
- When our staff are hospitalized
- When our staff are bereaved.

We invest in out-of-office staff activities such as sports events, team building and Corporate Social Responsibilities to help staff take a break to reflect bond.

Our staff engagement initiatives in 2021 were:

Staff wellness days: We simply cannot ignore the importance of our employees' health. We hold Annual Wellness Days to give our staff an opportunity to access helpful education, free resources, and have fun, as we encourage a healthy living.

Some of the activities realised in the year included **annual free medical check-up and mental awareness talks.**

There's no better way to inspire and engage employees than through a hands-on approach. Our staff get a chance to interact with healthcare professionals and other peers for advice and tips on living a healthy lifestyle. A group environment shows employees that they are not alone in their journey towards a healthy lifestyle, which offers a sense of encouragement and inspiration.

We also stressed on the importance of free online counselling services for our staff to seek for psychosocial help and better deal with the any personal or work challenges.

HR Policies Framework

We have proactive HR Policies, procedures and manuals that guide us on HR related issues. These include:





Whistleblowing Policy

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

The policy assures staff that they are protected from reprisals or victimization for “whistleblowing” in good faith.

The policy provides that staff may report an issue if it is unlawful; fraudulent; contrary to the bank’s policies and procedures; falls below established standards of practice; amounts to improper conduct and breach the Bank’s code of Conduct.

The bank has put in place systems to encourage staff to raise concerns in a structured and protected way by being allowed to anonymously whistle blow.

Labour Standards

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

Mothers Room

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

Our bank maintains cordial relations with the staff union and fosters this partnership to ensure that staff interests are addressed amicably and on time. The bank has a Collective Bargaining Agreement that provides for guidelines on the management and policies around the unionised employees.

Environmental Sustainability

INITIATIVES

As part of improving the way we manage our direct environmental impacts we have developed an environmental sustainability programme that revolves around reforestation and seeks to ensure we conserve our environment by increasing forest cover as well as keeping the environment around us clean. We do this through annual tree planting days and clean up days





» **STAFF AND
CUSTOMER
ENGAGEMENT
Activities**

Faulu Bank Launches its Nyahururu **AND NAKURU BRANCH**



In 2021 the bank enhanced its presence in the counties by increasing support to small enterprises to play a bigger role in key sectors like agriculture, manufacturing, trade, tourism, and real estate.

This was with the aim of extending financing to farmers, traders, contractors, manufacturers, and property developers in Nakuru, Nyandarua and Laikipia counties, three of the fastest growing business and economic hubs in Kenya's rift valley region.

"Faulu is keen on strengthening its play in the counties, where the economic action is taking place, by providing much needed financial support to improve the capacity of small enterprises to take advantage of unfolding trade opportunities at the devolved level," said Njoroge.

He explained that Nakuru's status as a major transit town along the busy Mombasa-Nairobi-Malaba highway linking Kenya to the greater East Africa region, positions it to expand into a prime regional commercial hub serving the central rift and western parts of the country.

Faulu is offering trade and asset financing to growing businesses in the county, involved in value addition activities in agro-processing, manufacturing, horticulture, dairy, and housing.

Faulu also looks to provide crop insurance to farmers through its bancassurance agency.

Nakuru county is among the largest and wealthiest in Kenya, accounting for 6.1 percent of the country's Gross Domestic Product, according to the World Bank. Nakuru is set to become the fourth city after Nairobi, Mombasa and Kisumu after the Senate approved a plan to elevate its status in June this year.

Nakuru County Governor Lee Kinyanjui said the county is keen on partnering with businesses to advance the economic and social development agenda.

Faulu also opened its branch in Nyahururu town which upgraded from a marketing office to position itself strongly in Laikipia County, ranked by the Kenya Institute of Public Policy, Research and Analysis (KIPRRA), among the top five counties in terms of creating a conducive business environment for SMEs.

Laikipia County Governor Ndiritu Muriithi hailed the decision by Faulu as an endorsement of the county to investors. "I am pleased to note that Faulu Bank will be increasing its support to local businesses. The Laikipia county government is ready to work closely with financial services providers to deepen commerce as we transform the local economy."

Apart from financing, Faulu is also training its SME customers on how to grow their businesses and strengthen financial risk management.



A group photo of the Faulu leadership team and Nakuru County Governor



County Government representatives from Nakuru, Faulu Leadership, staff and customers following the proceedings during Nakuru branch Launch



Nakuru County Governor - Mr Lee Kinyanjui takes at tour at the branch



Faulu Chairman, Mr. George Maina gives his speech at the launch



Staff warm up for a roadshow



Nakuru Governor - Lee Kinyanjui giving his speech





Faulu Chairman, George Maina, Laikipia County Governor, Ndiritu Muriithi and Faulu MD, Apollo Njoroge open Faulu Nyahururu Branch



A tour of the new Nayahuru branch



Faulu leadership and Laikipia County Governor pose for a photo after the launch of Nyahururu branch



Laikipia County Governor, Ndiritu Muriithi speaks to Faulu customers



The Faulu Nyahururu branch opened





Faulu launches a New Digital App dubbed **FAULU DIGICASH APP**

(L-R) Faulu Bank CEO Apollo Njoroge, the Bank's Board Chairman George Maina, and Eclectics Head of Business Development Jonah Ngui during the launch of the Bank's digital banking suite dubbed DIGICASH in a strategic move to grow its retail and business clientele, ramp up efficiency, reduce transaction costs, on the back of increased uptake of remote, cashless financial services.

Faulu Microfinance Bank Limited launched a digital banking app called: **Faulu DigiCash App** to allow its retail and business clientele access cashless banking from anywhere, anytime. This was a strategic focus on technology to drive value and better manage customer relationships.

The Bank's target was to reach one million customers by 2023 (both existing and potential) as it rolled out its technology strategy which has digitized its entire operations. The bank upgraded and launched an electronic data management system, a customer relationship management system, an agency banking app and an upgraded USSD platform.

This was in response to the rapidly evolving trend, where customers make less trips to banking halls resulting in increased demand for digital financial solutions. Existing and new Faulu customers can download the mobile app to access loans and other financial solutions in real time using smartphones and other devices. They are also able to open accounts, apply for loans, post queries and even buy insurance using smartphones. Individuals and businesses can also access and track payments and manage cash using the platform.

According to Faulu Bank MD, Apollo Njoroge, the Faulu DigiCash solution offers convenience to customers and enhances efficiency while reducing transaction costs.



The digital solution was driven by underlying trends in the market where many customers are no longer interested in going to the banking hall or spending time in long queues coupled with the trend of economic activities increasingly becoming cashless. The bank had to come up with a solution that empowers customers to meet their banking needs without having to walk around with cash or by keeping large amounts of money in their business premises thus ensuring their safety.

With over 400,000 customers spread across the country, an enhanced digital platform will enable the bank to boost its presence and reach in the market. Apart from enabling banking services, the Faulu DigiCash solution is core to delivery of a digital enabled customer experience that unlocks opportunities, investments and time for its growing clientele.

Capabilities of the DigiCash Mobile App

The core capabilities of the mobile app also include digital loans and credit scoring capabilities, customer relationship management and bancassurance. Using the Faulu DigiCash solution, one can also purchase and pay for insurance policies. It is also integrated with the major mobile money transfer platforms to facilitate payment of utility bills and other expenses using the phone. The Faulu DigiCash solution also enables payments through the RTGS platform. The Faulu DigiCash solution also comes as a relief to Faulu customers who transact outside the normal banking hours between 8 a.m. and 5p.m. such as traders who transport farm produce to markets at night.



Faulu leadership team show off the new App



Faulu DigiCash App launched



Faulu **DIGI** cash APP

Full control at your fingertips!



To get started, download the App today.



It is also convenient for groups like chamas by allowing them to mobilize savings from members without having to wait for the end of the month.

Even before the Covid-19 pandemic, visits to the banks by customers were on a decline and with the number of smartphones increasing exponentially, the use of banking apps that facilitate cashless transactions had been growing steadily. Recent surveys show that customers are increasingly opting for digital channels and looking for banks that offer a positive remote banking experience.

Digital technology is also critical in optimizing operational and cost efficiencies and driving alternate channels like mobile and agency banking. Faulu has strategically aligned its business model to provide a wide range of accessible financial services through its branch network, Faulu Mobile Banking through *339#, Faulu ATMs and through any Visa enabled ATMs countrywide.



Faulu DigiCash App launched



Download the **App**
Enjoy **convenience**
wherever you are!

Faulu **DIGI**
cash
APP

Full control at your fingertips



Faulu Extends its Footprints to KIAMBU COUNTY



Left - Faulu MD, Apollo Njoroge and Kiambu Governor Dr. James Nyoro inaugurate Limuru branch

Faulu opened a new branch in Limuru Town, Kiambu County in March 2021 eyeing the rich agricultural and commercial potential in the region, with specific focus on farmers and small enterprises in the agribusiness value chain.

Faulu MD, Apollo Njoroge recognized that Limuru is strategically located in Kenya's most productive agricultural regions and is a fast-growing commercial hub. Limuru is a major tea producing area with vibrant businesses and Faulu's presence positions it to scale up the support of small enterprises and individuals in the lucrative farming industry involved in poultry, dairy, horticulture and other agricultural activities including input supply. The Bank also plans to provide business training for its SME and individual customers to empower them with skills to grow their businesses.

Kiambu County Governor Dr. James Nyoro, who was the chief guest at the launch ceremony, hailed Faulu's move to open a third branch in the county saying this will create more opportunities for residents to improve their economic and financial wellbeing. He also disclosed that the county government will be partnering with financial institutions like Faulu Bank to provide flexible loans to SMEs since access to credit remains a big constraint for small businesses.

"I encourage the small traders to open accounts with banks like Faulu and grow their savings to enable them scale their businesses," said Dr. Nyoro.

Limuru is the third branch Faulu is opening in Kiambu County after Thika and Kiambu Town. In addition to agribusiness, Faulu is keen on tapping into the booming real estate market in the county.

The unique products the bank is offering include landlord loans for construction and rehabilitation of rental units in areas around Limuru like, Ruaka, Gachie, Banana, Ndenderu, Wangige and Kikuyu. The bank is looking to also open personal transactional and business accounts as well as ensure the uptake of its affordable Insurance products.

Faulu Bank is forging partnerships with national and county governments given that many of its customers are suppliers of public goods and services. A lot of business is happening in the counties and by offering products like LPO financing, the bank will be providing the much-needed financial support to enable customers meet their contractual obligations.

The ceremony was well attended by a representative of Faulu Branch managers and Head office staff, customers from different segments of business who were happy to continue supporting the growth of the Faulu brand and a section of the Kiambu county government officials.







Chase your DREAMS

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The Minimum **Critical Illnesses Cover** limit is from

as low as **Kshs. 500,000** to

as high as **Kshs. 10,000,000**

Critical **ILLNESS COVER**

Your health **Your wealth**

Faulu Celebrates CUSTOMER SERVICE WEEK



celebrates **CUSTOMER SERVICE WEEK**
October 4th - 8th

Power of Service
Customer Service Week 2021

DRESS CODE

Mon	Tue	Wed	Thu	Fri
Official Wear	African wear	Professions Day	Cowboy	Digicash Day
Bring out your favorite suit	Embrace our African culture	Staff dress in honour of professions of their choice. Doctor, Nurse, Farmer etc	White and Denim with a touch of cowboy	Digi cash T-shirts and Khaki
				

OUR Dream Team is: EFFICIENT • EMPATHIC • FLEXIBLE • RESULT ORIENTED

Faulu staff celebrated customer service week in style by heeding to the dress code from Monday to Friday.

The week was filled with fun activities. Staff were asked to decorate their office spaces to celebrate the Customer service week, customers were visited to appreciate them for their support, departments were paired, and they celebrated one another by bringing in breakfast potlucks and by sharing a lunch meal.

The positive vibe and enthusiasm that filled the week was felt countrywide and the customers loved it!



The legal team nail the cowboy dress code





The Leadership team appreciate Kenyans from different professions



Staff heed to the Customer service week dress code

New and improved **VISA 3D Secure** Faulu Debit Cards



Enjoy peace of mind when
you shop online with your
new VISA 3D secured cards.

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»» **Our**
PARTNERSHIPS

Faulu Bank Inks Deal with NGO Council, **SEEKS TO GROW DEPOSITS**

Faulu Bank signed a mutual partnership with the Non-Governmental Organization (NGO) Council, in a bid to mobilize sticky and affordable deposits, as well as grow its Non-Funded Income (NFI) Line.

Through pursuing partnerships such as this, the lender is banking on long term and sustainable strategies that will ensure the growth of its Current and Savings Account (CASA) and NFI line. Commenting during the ratification ceremony, Faulu Bank CEO Apollo Njoroge said, “Signing of this Memorandum of Understanding today will offer us an opportunity to support the council in capacity development and providing financial literacy to NGOs and Community Based Organisations (CBOs) while advancing our products and service to the NGO sector”.

On the flip side, the council will support the bank by ensuring that it partners with as many NGOs as possible and onboard them to enjoy the benefits of its Imani Account – a product customized for NGOs, CBOs, and Churches.





» **OUR CORPORATE
SOCIAL
Responsibility**



The UAP Old Mutual Faulu Foundation strategy is underpinned on the creation of financial wellbeing for the communities we serve as a critical pillar.

Financial education, skills and literacy programmes, financial inclusion programmes, such as those that seek to strengthen small businesses is part of how the Foundation promotes and realises financial well being.

Our initiatives in this category seek to promote the Sustainable Development Goals with a focus on:



In 2021, the UAP Old Mutual Foundation partnered with various organisations for the attainment of financial wellbeing objectives:

01. To empower young people with skills for employability and entrepreneurship for job creation.

02. Increase the literacy and skills levels in the society to support innovation and economic development

03. Improved livelihoods through associated benefits of increased earnings per household



» UAP Old Mutual Faulu Foundation AREAS OF IMPACT

01. Mainstreaming financial literacy in Kenya (Old Mutual Learn. Think. Do initiative)

UAP Old Mutual Faulu Foundation and the Kenya Institute of Curriculum Development (KICED) launched a partnership to boost the implementation of financial literacy in Kenya under the new Competency- Based Curriculum (CBC). Through an investment of Kshs 21,972,500, the Foundation committed to improve the financial literacy levels of teachers and learners in the Kenyan Education System through teachers' development efforts and achievement of the following deliverables:

- Analysis of integration matrices.
- Development of financial literacy guidelines.
- Development of financial literacy teachers' online and offline courses for junior secondary and senior schoolteachers.

The partners attained the first two milestones in 2021 and are set to develop and cascade financial literacy course.



Arthur Oginga Group CEO Old Mutual East Africa with Prof. Charles Ong'ondo CEO Kenya Institute of Curriculum Development (KICED) at the signing of the partnership between Old Mutual and KICED



Key stakeholders drawn from different sectors of the financial and education ecosystem pose for a group photo during the commencement of the development of the financial literacy online orientation course for junior and senior secondary school teachers.

02. Financial education for the youth

UAP Old Mutual Faulu Foundation partnered with Shujaaz Inc, the network of social ventures behind East Africa’s biggest youth brand ‘Shujaaz’, to launch a financial education initiative for youth in the informal sector. The partners adapt Old Mutual and Faulu’s financial education content dubbed on-the-money, using relatable language and leveraging peer-to-peer learning models by showcasing role model young people on videos shared through social media channels.

The program also leveraged UAP Old Mutual Faulu Group subject matter experts to provide more information to young people.

Through an investment of Kshs.5.4M, the initiative reached over 8million young people in Kenya, via social media platforms and equipped young people with Shujaaz Partnership.



Debt Management - John Kimanthi, Faulu Microfinanc...



Separate business and personal finances when...



03. Skills development for the youth

The Foundation has continued to drive skills development through its partnership with Simba Foundation Limited, the social responsibility arm of Simba Corp Group. The first phase of the programme is aimed at enabling skills development in the automotive sector for 70 students in Nairobi, Mombasa and Kisumu Counties.

UAP Old Mutual Faulu Foundation implements the project through vocational institutions for technical training. Additionally, the UAP Old Mutual, Faulu Group provides linkage to its panel of garages for students to access industry training during the program.



Training ongoing at Christian Industrial Training Centre Mombasa



Students attending Christian Industrial Training Centre (CITC) Mombasa, a practical lesson





A group photo with students at the Christian Industrial Training Centre Mombasa and UAP Old Mutual Faulu Foundation representatives



A group photo with CITC Alumni and with UAP Old Mutual Faulu Representatives and Mr Popat, Chairman Simba Foundation

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T&Cs apply

» 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 2021, 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 the provision of loans to micro and small entrepreneurs, deposit taking from the public and bancassurance.

The principal activity of the subsidiary is the provision of insurance agency services.

OPERATING RESULTS OF THE GROUP AND THE BANK FOR THE YEAR

	Group		Bank	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Loss	(489,796)	(446,417)	(521,656)	(475,990)
Tax Income	105,260	72,334	114,988	76,854
Loss for the year	(384,536)	(374,083)	(406,668)	(399,136)



Business REVIEW

Operating environment

The year 2021 was characterised by:

NPLS

During the pandemic, Kenyan banks extended the terms of their loans to help borrowers weather the crisis. This saw bad loans rise for the better part of 2020 and 2021 as most Kenyans struggled from the economic effects of COVID-19 leading to loan defaults. According to the latest data from the Central Bank of Kenya (CBK), the rate of non-performing loans fell to a 19-month low of 13.1% in December 2021 compared to 14.5% in 2020 on increased repayments and recoveries amid the easing of coronavirus economic hardships.

USD/Shs performance

The Kenya Shilling depreciated by 3.6% against the US Dollar to close at Shs 113.1 in 2021, compared to Shs 109.2 at the end of 2020 attributable to increased dollar demand in the region following the reopening of major economies in 2021, coupled with a faster increase in imports as compared to exports.

Liquidity

Liquidity levels tightened during the year as evidenced by the increase in the average interbank rate to 4.7% in 2021, from 3.7% in 2020. The tightened liquidity is partly due to government remittances which offset payments. The average volumes traded in the interbank market declined marginally by 0.3% to Shs 10.65 bn in 2021 from Shs 10.68 bn recorded in 2020.

Digital Channels

Data from the Central Bank of Kenya show that ATM usage has declined by a significant margin. Majority of Kenyans preferred to use digital banking in 2021 opting out of brick-and-mortar facilities as fintech continued to influence transactions behaviour. Mobile banking usage increased to 34.4% in 2021 from 25.3% in 2019, as more people used technology to transact during COVID-19 period. 56% of the institutions identified the drive for uptake and utilization of digital channels especially mobile and internet banking as a key strategy in the COVID-19 era.

Interest rates

Interest rate market has been relatively stable during the year with a small upward adjustment that has been occasioned by aggressive CBK borrowing activities to fill up the budgetary deficits. The MPC in the last meetings has maintained the CBR rate at 7.00 during the year with the trends expected to hold.

Mergers and acquisitions

Due to changes in the operating environment, several licensed institutions, commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). Some of the reasons put forward for mergers and acquisitions are to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices, among others. During the year Uwezo Microfinance was acquired by Salaam African Bank (of Djibouti).



Market Description and Branch Networks

The Bank has 55 banking branches, 2 marketing offices and 741 appointed agents. These hubs and branches currently serve close to 367,164 customers. The bulk of the Bank's customers are civil servants while others are engaged in commercial activity of a retail nature, with a reasonable number engaged in service businesses, agriculture, and manufacturing. The Bank closed four banking branches and moved one branch to a new location.

Products and Services

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

Risk Management

The Group has put in place a robust risk management and corporate governance framework that enables it to identify, assess and prioritize its risks, as well as detail the mitigation and response plans for each category of risk. The banks' risk-management functions, which act as a second line of defence between frontline employees who work directly with customers and the internal risk teams, also had to adjust the way they operate. They also had to adopt new practices to monitor existing risks and guard against new ones, including cyber risks triggered by the pandemic. The 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 2022 anchored by our balance sheet strength, bancassurance products and launch of digital platform. The impressive growth on all fronts is supported by robust foundation over the years, and it is upon this solid foundation that we launch into 2022 with great excitement.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year (2020: 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, Deloitte & Touche LLP, having expressed their willingness, continue in office in accordance with the Kenyan Companies Act, 2015 and subject to approval by the Central Bank of Kenya under section 29(1) of the Kenyan Microfinance Act (2006). The Directors monitor the effectiveness, objectively and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders,

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

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

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

BY ORDER OF THE BOARD

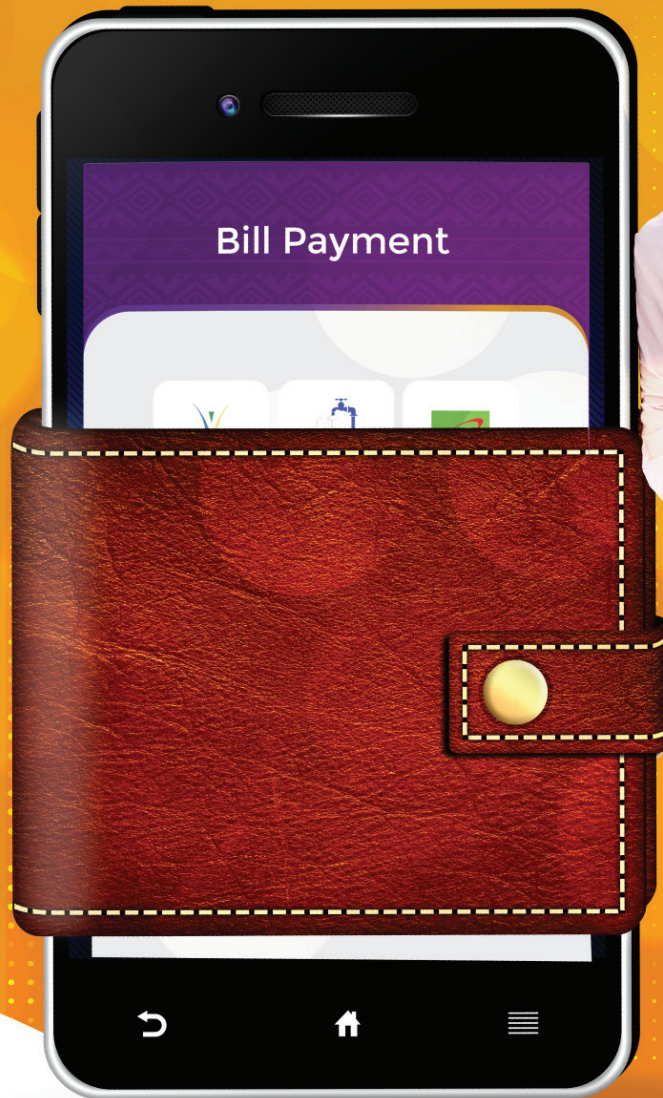


Nkirote Mworira Njiru
Secretary

Nairobi

2022

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» CORPORATE GOVERNANCE STATEMENT

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

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

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

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

Board size, composition and appointments

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

As at 31 December 2021, the Board is comprised of ten (10) Directors majority of whom are non-executive Directors with one (1) executive director.

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

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

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

Board responsibilities

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

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

Chairman and Managing Director

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

The Chairman is responsible for:

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

The Managing Director is responsible for:

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

Board and Committee Responsibilities

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

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

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

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 2021, the Board met five (5) times.

Board of Directors	Role	Attendance at qualifying meetings	Average Attendance
George A. Maina	Chairman Non-Executive Director	5/5	100%
Sophia Mukoba	Non- Executive Director	5/5	100%
Njeri Ndehi	Non- Executive Director	4/4	100%
Peter J. Mogan	Non- Executive Director	4/5	80%
Peter Gachuba	Non- Executive Director	5/5	100%
Michael Monari	Non- Executive Director	2/2	100%
Arthur Oginga	Non- Executive Director	2/2	100%
Kenneth Kariuki	Non- Executive Director	2/2	100%
Caroline Gathii	Non- Executive Director	1/1	100%
Apollo N. Njoroge	Executive Director	5/5	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	Average Attendance
Sophia Mukoba	100%
Peter Mogan	100%

The Risk Management Committee

The Board delegates the responsibility to ensure quality, integrity, and reliability of the Bank's risk management to the Board Risk Management Committee. The Committee met four (4) times in the year 2021 and its responsibilities were as follows:

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

The Committee meeting attendances during the year were as follows:

Membership during the year	Average Attendance
George A Maina	100%
Njeri Ndehi	100%
Kenneth Kariuki	100%
Caroline Gathii	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:

- Review and oversee the overall lending policies, including monitoring and risk management tools.
- Review loan applications based on established discretionary approved limits.
- Review lending practices and quality of loan portfolio.
- Ensure that there are effective procedures and adequate resources to identify and mitigate credit risk.
- Monitor and evaluate all issues that may materially impact on the present and future quality of the loan portfolio and credit risk management.
- Delegate and review lending limits to the sanctioning arms of the institution.
- Ensure adequate provisions for loans and advances, bad and doubtful debts and write-off policy
- Conduct loan reviews independent of any person or committee responsible for sanctioning credit.
- 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
- Set limits on lending exposure in line with the institution's risk management programs and market conditions.

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

Membership during the year	Average Attendance
Peter Gachuba	100%
Michael Monari	100%
Apollo N. Njoroge	100%

The Governance, Remuneration and Nominations Committee

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

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

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

Membership during the year	Average Attendance
George A. Maina	100%
Sophia Mukoba	100%
Arthur Oginga	100%

The Innovation and Technology Committee

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

- 1 Develop and sustain the information technology (IT) plan for the Bank and ensure approval by the Board. This includes:
 - a. Responsibility of managing strategic IT related projects like the core banking upgrade/replacement; and
 - b. Coordinating components of the plans from all units across the Bank.
- 2 Develop and recommend the Bank's IT policy.
- 3 Review and recommend IT project development plans in the context of Information technology strategic and transformation agenda.
- 4 Create ad hoc committees to address strategic Information and Communication Technology (ICT) issues, when required; and
- 5 Review, coordinate and arbitrate major ICT activities across the Bank
- 6 Provide an update to the Board, Regulators and the relevant shareholders on the progress made in the identified IT strategic projects and the transformation agenda.

Innovations and Technology Committee	Average Attendance
George A. Maina	100%
Peter Gachuba	100%
Michael Monari	100%
Apollo Njoroge	100%



Management Committees

i) The Assets and Liabilities Management Committee (ALCO)

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

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

ii) The Management Credit Risk Committee

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

Single Borrower Limit

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

KYC Requirements

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



George A. Maina
Chairman



Apollo N. Njoroge
Managing Director

2022

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» STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

They also accept responsibility for:

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

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

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

Approved by the Board of Directors on 30th March 2022 and signed on its behalf by:



George A. Maina
Chairman



Apollo N. Njoroge
Managing Director



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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 Limited (the "Bank") and its subsidiary (together, the "Group"), set out on pages 77-141, which comprise the consolidated and bank statements of financial position as at 31 December 2021, and the consolidated and bank statements of profit or loss and other comprehensive income, the consolidated and bank statements of changes in equity and the consolidated and bank statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and bank financial statements give a true and fair view of the Group and bank financial position as at 31 December 2021 and of their group and bank financial performance and group and bank cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015

Basis for Opinion

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

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

Other Information

The Directors are responsible for the other information. The other information comprises corporate information, chairman's statement, report of the Directors and corporate governance statement. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the Group and bank financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group and bank financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for Consolidated and Bank Financial Statements

The Directors are responsible for the preparation and fair presentation of the Group and bank financial statements that give a true and fair view in accordance with IFRS and the requirements of the Kenyan companies Act, 2015, and for such internal controls as directors determine are necessary to enable the preparation of group and bank financial statements that are free from material misstatement, whether due to fraud or error.

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



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

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

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

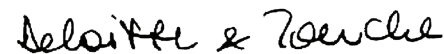
- Identify and assess the risks of material misstatement of the Group and bank financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion, the information given in the report of the directors on pages 68 to 70 is consistent with the group and bank financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is **F CPA Anne Muraya, Practising certificate No. 1697.**



**For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi**

30th March 2022

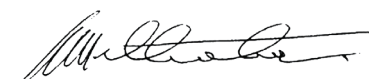
CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Interest income(effective interest method)	5	4,261,645	4,499,890	4,260,478	4,499,890
Interest expense	6	(2,300,721)	(2,283,130)	(2,127,314)	(2,283,130)
Net interest income		2,138,177	2,216,760	2,133,164	2,216,760
Fees and commissions	7(a)	296,285	421,400	252,628	385,372
Foreign exchange gains/(losses)		10,153	(1,679)	10,153	(1,679)
Other income	7(b)	20,903	34,016	20,903	29,267
Operating income		2,465,518	2,670,497	2,416,848	2,629,720
Administration and operating expenses	9	(2,441,573)	(2,166,665)	(2,423,443)	(2,157,518)
Impairment losses on loans and receivables	11(a)	(516,915)	(954,132)	(518,235)	(952,075)
		(2,958,488)	(3,120,797)	(2,941,678)	(3,109,593)
Net operating loss		(492,970)	(450,300)	(524,830)	(479,873)
Share of associate company's profit	18(a)	3,174	3,883	3,174	3,883
		(489,796)	(446,417)	(521,656)	(475,990)
Taxation charge	12(a)	105,260	72,334	114,988	76,854
Loss for the year		(384,536)	(374,083)	(406,668)	(399,136)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		330,131	190,444	311,963	180,906



	Note	GROUP		BANK	
		2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
ASSETS					
Local currency cash		388,285	398,943	388,285	398,943
Balances due from banks and financial institutions		354,008	226,770	354,008	226,770
Short term deposits with banks	13	1,238,219	1,452,042	1,238,219	1,452,042
Cash balances with Central Bank of Kenya	14	1,059,127	1,419,902	1,059,127	1,419,902
Loans to customers	15	15,377,715	17,561,162	15,377,715	17,561,162
Government securities	16	5,008,746	4,294,395	4,997,463	4,294,395
Other assets	17	528,486	388,308	522,798	381,968
Current tax assets	12(c)	293,406	337,493	284,275	337,493
Due from related companies	30(a)	517	577	5,497	577
Investment in associate companies	18(a)	58,174	55,952	58,174	55,952
Investment in a subsidiary		-	-	5,000	5,000
Deferred tax asset	19	1,025,586	771,001	1,025,356	770,634
Property and equipment	20	1,438,511	1,408,353	1,438,234	1,408,023
Intangible assets	21	549,757	630,626	544,444	623,994
Right of use assets	22	480,956	341,674	480,956	341,674
TOTAL ASSETS		27,801,493	29,287,198	27,779,551	29,278,529
LIABILITIES AND EQUITY					
LIABILITIES					
Cash collaterals	23	449,996	478,033	449,996	478,033
Customer deposits	24	20,997,414	22,386,869	21,074,297	22,453,308
Borrowings	25	692,139	2,017,292	692,139	2,017,292
Other liabilities	26	1,384,773	970,276	1,380,660	968,790
Current tax liabilities	12(c)	-	2,714	-	-
Due to related companies	30(b)	37,802	30,103	37,802	31,775
Lease liabilities	27	594,261	422,267	594,261	422,267
		24,156,385	26,307,554	24,229,155	26,371,465
EQUITY					
Share capital	28 (a)	659,996	480,000	659,996	480,000
Share premium	28 (b)	3,769,763	2,899,759	3,769,763	2,899,759
Accumulated deficit		(1,059,968)	(675,432)	(1,154,680)	(748,012)
Revaluation surplus		275,317	275,317	275,317	275,317
		3,645,108	2,979,644	3,550,396	2,907,064
TOTAL LIABILITIES AND EQUITY		29,681,986	27,219,472	29,681,517	27,224,936

The financial statements on pages 81 to 145 were approved and authorised for issue by the board of directors on 30th march 2022 and were signed on its behalf by:



George A. Maina
Chairman



Sophia Mukoba
Director



Apollo N. Njoroge
Managing Director



Nkirote K. Mworira
Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Group				
	Share capital Shs'000	Share premium Shs'000	Accumulated deficit) Shs'000	Revaluation surplus Shs'000	Total Shs'000
At 1 January 2020	480,000	2,899,759	(302,122)	254,653	3,332,290
Loss for the year	-	-	(384,536)	-	(384,536)
Other comprehensive income	-	-	-	21,437	21,437
Transfer of excess depreciation net of deferred tax	-	-	773	(773)	-
As at 31 December 2020	480,000	2,899,759	(675,432)	275,317	2,979,644
At 1 January 2021	480,000	2,899,759	(675,432)	275,317	2,979,644
Loss for the year	-	-	(384,536)	-	(384,536)
Other comprehensive income	-	-	-	-	-
Issue of share capital	179,996	870,004	-	-	1,050,000
As at 31 December 2021	659,996	3,769,763	(1,059,968)	275,317	3,645,108

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



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Bank				
	Share capital Shs'000	Share premium Shs'000	Retained earnings (accumulated deficit) Shs'000	Revaluation surplus Shs'000	Total Shs'000
At 1 January 2020	480,000	2,899,759	(349,649)	254,653	3,284,763
Loss for the year	-	-	(399,136)	-	(399,136)
Other comprehensive income	-	-	-	21,437	21,437
Transfer of excess depreciation net of deferred tax	-	-	773	(773)	-
As at 31 December 2020	480,000	2,899,759	(748,012)	275,317	2,907,064
At 1 January 2021	480,000	2,899,759	(748,012)	275,317	2,907,064
Loss for the year	-	-	(406,668)	-	(406,668)
Other comprehensive income	-	-	-	-	-
Increase in share capital	179,996	870,004	-	-	1,050,000
As at 31 December 2021	659,996	3,769,763	(1,154,680)	275,317	3,550,396

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 2021

	Note	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	29(a)	1,377,722	3,805,534	1,349,860	3,797,993
Tax paid	12(c)	(101,004)	(294,528)	(85,564)	(290,170)
Net cash (used in) / generated from operating activities		1,276,718	1,276,718	1,264,296	3,507,823
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property and equipment		42,911	857	42,977	857
Investment in subsidiary	18(b)	-	-	-	(4,000)
Purchases of investment securities		(2,859,105)	(5,066,900)	(2,847,822)	(5,066,900)
Sales/maturities of investment securities		3,666,900	4,337,975	3,666,900	4,337,975
Purchase of property and equipment	20	(210,314)	(187,775)	(210,314)	(187,775)
Purchase of intangible assets	21	(1,139)	(11,418)	-	(4,235)
Net cash used in investing activities		639,319	(927,261)	651,741	(924,078)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	29(c)	525,000	750,000	525,000	750,000
Borrowings repaid	29(c)	(1,850,153)	(3,098,983)	(1,850,153)	(3,098,983)
Lease repayments	27	(215,981)	(144,053)	(215,981)	(144,053)
Proceed from issue of share capital		1,050,000	-	1,050,000	-



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021(CONTINUED)

	Note	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
CASH FLOWS FROM FINANCING ACTIVITIES					
Net cash (used in)/ generated from financing activities		(491,134)	(2,493,036)	(491,134)	(2,493,036)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,424,903	90,709	1,424,903	90,709
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,077,755	1,987,046	2,077,755	1,987,046
CASH AND CASH EQUIVALENTS AT END OF YEAR	29(b)	3,502,658	2,077,755	3,502,658	2,077,755

» NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. 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) and the Kenyan Companies Act, 2015.

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2021

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

IFRS 16, ‘Leases’ COVID-19- Related Rent Concessions Amendment

This standard becomes effective for annual periods beginning on or after 1 June 2021.

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

The change did not have impact on the financial statements as the Group did not have Covid-19 related rent concessions in the current year.

Amendments to IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments: Recognition and Measurement’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’ – interest rate benchmark (IBOR) reform

These amendments become effective for Annual periods beginning on or after 1 January 2021.

Phase 1 The International Accounting Standards Board (IASB) issued amendments to the following standards as part of the Interest Rate (Interbank Offered Rates or IBOR) Benchmark Reform that has a direct impact on the bank’s hedging relationships. These impacts are

- The highly probable requirement under IFRS 9 and IAS 39 – when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument is based is not altered as a result of the interest rate benchmark reform.
- Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a noncontractually specified benchmark component of interest rate risk. A company shall apply the separately identifiable requirement only at the inception of such hedging relationships. These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new alternative risk-free rates (ARRs)



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021 (Continued)

Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Continued)

Phase 2 The amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly risk-free interest rate (RFR).

These include:

- Practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Fundamental to allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed separately. If the other changes result in substantial modification, the instrument is derecognised. If derecognition is not achieved, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss.
- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

The amendments provide entities temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

The change did not have a material impact on the financial statements of the Group.

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021

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

New Standards and amendments to standards	Subject	Effective for annual periods beginning on or after 2022
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021	1 Apr 2021
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 Jan 2022
Annual Improvements to IFRS Standards 2018–2020 (May 2020)	Annual Improvements to IFRS Standards 2018–2020 (May 2020)	1 Jan 2022
Amendments to IFRS 3 (May 2020)	Reference to the Conceptual Framework	1 Jan 2022
Amendments to IAS 37 (May 2020)	Onerous Contracts - Cost of Fulfilling a Contract	1 Jan 2022
IFRS 17	Insurance Contracts	1 Jan 2023
Amendments to IFRS 17	IFRS 17	1 Jan 2023
Amendments to IAS 1	Classification of liabilities as current or non-current (including the July 2020 amendments-deferral of effective date)	1 Jan 2023
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	1 Jan 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 Jan 2023

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021 (Continued)

New Standards and amendments to standards	Subject	Effective for annual periods beginning on or after 2022
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 Jan 2023
Amendments to IAS 8	Definition of accounting estimates	1 Jan 2023
Amendments to IFRS 17	Initial Application of IFRS 17 and IFRS 9 — Comparative Information	1 Jan 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely by amendments made in December 2015.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods. Below is summarised descriptions of the new and revised IFRS Standards in issue but not yet effective.

Amendments to IFRS 16 titled Covid-19-Related Rent Concessions Beyond 30 June 2021 (issued in March 2021).

The previous amendment to IFRS 16 permitted the practical expedient to be applied only to reductions in lease payments that did not extend beyond 30th June 2021. This amendment, applicable to annual periods beginning on or after 1 April 2021 allows the practical expedient to be applied to reductions in lease payments that do not extend beyond 30th June 2022.

Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use

The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or

loss.

Annual Improvements to IFRS Standards (2018- 2020)

The Annual Improvements include amendments to 3 Standards.

(1) Amendment to IFRS 1 titled Subsidiary as a First-time Adopter

The amendment, applicable to annual periods beginning on or after 1 January 2022, provides subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.

(2) Amendment to IFRS 9 titled Fees in the ‘10percent’ Test for Derecognition of Financial Liabilities

The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

(3) Amendment to IAS 41 titled Taxation in Fair Value Measurements

The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cashflows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

(4) IFRS 9 Financial Instruments (Fees in the ‘10 per cent’ test for derecognition of financial liabilities)

The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021 (Continued)

Amendment to IFRS 3

The amendment becomes effective for annual periods beginning on or after 1 January 2022. The Board has updated IFRS 3, 'Business combinations', to refer to the 2019 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.

In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2019 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The change is not expected to have any material impact to the accounts.

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

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

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

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

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract

The amendment becomes effective for annual periods beginning on or after 1 January 2022.

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract. The change is not expected to have any material impact to the accounts.

IFRS 17 Insurance Contracts (issued in May 2017)

The new standard, effective for annual periods beginning on or after 1 January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Group does not issue insurance contracts.

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current (including July 2020 amendments)

Initially, the amendments were effective for annual periods beginning on or after 1 January 2022. However, the July 2020 amendments deferred effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2023. The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The change is not expected to have any material impact to the accounts.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021 (Continued)

Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9

The amendments change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 and IFRS Practice Statement 2- Disclosure of accounting policies

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 such that an entity is now required to disclose its material accounting policy information instead of its significant accounting policies. The amendments further clarify certain aspects of materiality relating to disclosures.

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

The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IAS 8 - Definition of accounting estimates

The amendments, applicable to annual periods beginning on or after 1 January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IFRS 17 - Initial Application of IFRS 17 and IFRS 9 — Comparative Information

The June 2020 amendments introduced a deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023.

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

(iii) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2021.

a) Basis of preparation

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

Basis of consolidation

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

- Has the power over the investee
- 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.

b) Interest income and expense

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

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

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

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

c) Investment in associate company

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

d) Taxation

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

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The 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.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

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

e) Fees and commission

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

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

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

f) Property and equipment

Cost/revaluation

Land and buildings are initially recorded at cost.

Freehold land is subsequently stated at fair value less accumulated impairment losses. 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 income statement.

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 the income statement.



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

f) Property and equipment(continued)

Cost/valuation(continued)

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 the income statement.

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

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

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

Depreciation

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

Motor vehicles	25.0%
Computers and equipment	30.0%
Electronic office equipment	25.0%

Durable non-electrical equipment	12.5%
Buildings on freehold land	2.5%
Freehold land	nil

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

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

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.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

g) Intangible assets - computer software development costs

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

h) Leases

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

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

Discount rate

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

Lease term/period

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

Lease payments

The lease payments are paid in advance at the beginning of each quarter from start of the

lease date. The lease payments varies with lessors where some lease contracts have fixed payments while others have variables with escalation clauses.

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

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

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

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

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

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Lease payments (continued)

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.

i) 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 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.

j) Retirement benefit obligations

(i) Bank's defined contribution pension scheme

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

(ii) Statutory defined contribution pension scheme

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

j) Retirement benefit obligations(continued)

(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.

k) Foreign currencies

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

l) Financial instruments

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

Classification and measurement

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

- Measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

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

Amortised cost

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

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

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

Fair Value through Other Comprehensive Income (FVOCI)

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

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

The Group has no financial assets classified at FVOCI.



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (Continued)

Fair Value through Other Comprehensive Income (FVOCI)

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

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

The Group has no financial assets classified at FVOCI.

Fair Value through Profit or Loss (FVTPL)

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

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

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;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant decrease in the borrower's ability to meet its debt obligations.

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

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

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(1) Financial instruments (Continued)

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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- 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. Any recoveries made are recognised in profit or loss.

v) Measurement and recognition of expected credit losses

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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

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

reevaluation 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.

m) Offsetting financial instruments

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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:



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Critical accounting judgements in applying the Group's policies

Business model assessment

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

Significant increase in credit risk

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

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

Key sources of estimation uncertainty

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

Taxation provisions

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

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

Calculation of loss allowance:

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

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Calculations of loss allowance(Continued)

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

Property and equipment

Critical estimates are made by the Directors in determining depreciation rates for property equipment and intangible assets

Fair value measurement and valuation

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

Leases

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

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 authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

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.

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 utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.

- The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

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

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

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

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Significant increase in credit risk (Continued)

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.

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

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

Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

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

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.



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Measurement of ECL (Continued)

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;
- Income bracket of the borrower; and

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.

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

(i) Management of credit risk

Concentrations of assets:

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

	2021 Shs '000	%	2020 Shs '000	%
Principal loans to customers				
Agriculture	467,800	3%	610,835	3%
Trade	4,967,480	27%	5,856,788	28%
Consumer	12,441,028	70%	14,215,317	69%
	17,876,308	100%	20,682,940	100%
Cash collaterals				
Agriculture	18,627	4%	19,788	4%
Trade	412,808	92%	438,528	92%
Consumer	18,561	4%	19,717	4%
	449,996	100%	478,033	100%

(ii) Maximum exposure to credit risk before collateral held

	2021 Shs '000	%	2020 Shs '000	%
Credit exposure on balance sheet items:				
Short term deposits with banks	1,238,813	5%	1,454,068	5%
Loans to customers	18,697,071	71%	20,682,940	74%
Government securities	5,028,220	19%	4,318,974	15%
Bank balances	354,008	1%	226,847	1%
Cash balances with Central Bank of Kenya	1,059,127	4%	1,419,935	5%
Total gross carrying amount	26,377,239	100%	28,102,764	100%
Allowance for credit losses (Note 11(b))	(3,350,732)		(3,148,493)	
Net carrying amount	23,026,507		24,954,271	



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2021

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

31 December 2020

	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loans and advances to customers at amortised cost				
Grade 1: Normal	13,264,957	77	9,897	13,274,931
Grade 2: Watch	2,386,194	9,171	9,524	2,404,889
Grade 3: Substandard*	77,699	495,815	-	573,514
Grade 4: Doubtful*	37,149	296,240	177	333,566
Grade 5: Loss	-	88,064	4,007,976	4,096,040
Total gross carrying amount	15,765,999	889,367	4,027,574	20,682,940
Allowance for credit losses	(391,667)	(380,843)	(2,349,268)	(3,121,778)
Net carrying amount	15,374,332	508,524	1,678,306	17,561,162

*IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. In the current year, the Group rebutted the presumption for certain customers who were deemed to have faced temporary liquidity constraints as a result of COVID-19. In current year 2021 the Group didn't restage loans as a result of COVID-19 (2020: Shs 114,977,000) under the substandard and doubtful classes were classified under stage 1.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2021

Loss allowance - Loans and advances to customers at amortized cost	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Loss allowance as at 1 January 2021	(391,667)	(380,843)	(2,349,268)	(3,121,778)
Amount charged to P&L (sub-total)	114,963	74,932	(706,616)	(516,721)
Originations, purchases and interest accruals	(474,117)	(25,763)	(123,448)	(623,328)
Repayments & other derecognitions, excluding write-offs	159,148	148,809	(132,124)	175,833
Changes in the loss allowance				
-Transfer to stage 1	(198,038)	99,622	98,416	-
-Transfer to stage 2	343,439	(367,095)	23,656	-
-Transfer to stage 3	379,404	285,346	(664,750)	-
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	(94,874)	(65,987)	91,635	(69,226)
Write-offs	-	-	319,143	319,143
Loss allowance as at 31 December 2021	(276,704)	(305,911)	(2,736,741)	(3,319,356)

31 December 2020

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2021

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

31 December 2020

Loss allowance- Other financial assets at amortised cost	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	Sh'000	Sh'000	Sh'000	Sh'000
Loss allowance as at 1 January 2020	(31,837)	(182)	(13,674)	(45,693)
Amount charged to P&L (sub-total of the below items)	5,084	(10,401)	5,228	(89)
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	-	-	-
- Increases due to change in credit risk	-	-	-	-
- Decreases due to change in credit risk	-	-	-	-
- Write-offs	-	-	-	-
New financial assets originated or purchased	(1,435)	(10,401)	-	(11,836)
Financial assets that have been derecognised	6,519	-	5,228	11,747
Loss allowance as at 31 December 2021	(26,753)	(10,583)	(8,446)	(45,782)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2021

Banking Gross carrying amounts- Loans and advances to customers at amortised cost	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Gross carrying as at 1 January 2021	15,751,288	889,366	4,042,286	20,682,940
Changes in the loss allowance	292,066	(163,220)	(128,846)	-
- Transfer to stage 1	(496,250)	524,754	(28,504)	-
- Transfer to stage 2	(1,007,387)	(449,059)	1,456,446	-
- Transfer to stage 3	-	-	(319,143)	(319,143)
- Write-offs	7,825,787	315,948	159,351	8,301,086
New financial assets originated or purchased	(8,580,627)	(290,937)	(1,096,248)	(9,967,812)
Financial assets that have been derecognised	-	-	(330,645)	(330,645)
New financial assets originated or purchased	10,630,612	279,177	115,669	11,025,458
Financial assets that have been derecognised	(8,009,499)	(207,315)	(447,698)	(8,664,512)
Gross carrying amounts as at 31 December 2021	13,784,877	826,852	4,085,342	18,697,071

31 December 2020

Banking Gross carrying amounts- Loans and advances to customers at amortised cost	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Gross carrying as at 1 January 2018	14,573,930	1,081,039	2,163,160	17,818,129
Gross carrying as at 1 January 2021	18,123,197	750,851	2,626,591	21,500,639
Changes in the loss allowance				
- Transfer to stage 1	873,986	(321,490)	(552,496)	-
- Transfer to stage 2	(651,128)	879,973	(228,845)	-
- Transfer to stage 3	(1,678,368)	(471,586)	2,149,954	-
- Write-offs	-	-	(96,275)	(96,275)
New financial assets originated or purchased	7,964,916	338,855	267,654	8,571,425
Financial assets that have been derecognised	(8,881,315)	(287,237)	(124,297)	(9,292,849)
Financial assets that have been derecognised	(7,378,121)	(502,795)	(981,059)	(8,861,975)
Gross carrying amounts as at 31 December 2018	16,648,995	1,072,257	2,498,204	20,219,456



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

December 2021

Gross carrying amounts- Loans and advances to customers at amortized cost	Stage 1 12-month Sh'000	Stage 2 Lifetime Sh'000	Stage 3 Lifetime Sh'000	Total Sh'000
SME				
Gross carrying as at 1 January 2021	1,581,930	107,080	1,769,895	3,458,905
- Transfer to stage 1	97,042	(44,629)	(52,413)	-
- Transfer to stage 2	(41,075)	46,996	(5,921)	-
- Transfer to stage 3	(466,116)	(36,932)	503,048	-
- Write-offs	-	-	(311,584)	(311,584)
New financial assets originated or purchased	1,192,560	13,817	2,293	1,208,670
Financial assets that have been derecognized	(763,823)	(31,311)	(499,282)	(1,294,416)
-Write-offs	-	-	46,951	46,951
New financial assets originated or purchased	(70,735)	-	-	(70,735)
Financial assets that have been derecognised	185,194	86,164	(141,572)	129,786
Gross carrying amounts as at 31 December 2021	1,600,518	55,021	1,406,036	3,061,575
Community				
Gross carrying as at 1 January 2021	1,263,122	157,639	1,115,784	2,536,545
- Transfer to stage 1	23,945	(5,728)	(18,217)	-
- Transfer to stage 2	(111,186)	113,396	(2,210)	-
- Transfer to stage 3	(334,195)	(173,000)	507,195	-
- Write-offs	-	-	(4,564)	(4,564)
New financial assets originated or purchased	1,393,253	126,169	73,346	1,592,768
Financial assets that have been derecognized	(877,560)	(49,171)	(546,088)	(1,472,819)
-Write-offs	-	-	-	-
New financial assets originated or purchased	(26,924)	(2,232)	(16,764)	(45,920)
Financial assets that have been derecognised	7,524	(3,678)	(140,645)	(136,800)
Gross carrying amounts as at 31 December 2021	1,357,379	169,305	1,125,246	2,651,930

Gross carrying amounts- Loans and advances to customers at amortized cost	Stage 1 12-month Sh'000	Stage 2 Lifetime Sh'000	Stage 3 Lifetime Sh'000	Total Sh'000
Retail				
Gross carrying as at 1 January 2021	12,906,234	624,648	1,156,608	14,687,490
- Transfer to stage 1	171,081	(112,865)	(58,216)	-
- Transfer to stage 2	(343,991)	364,363	(20,372)	-
- Transfer to stage 3	(207,076)	(239,127)	446,203	-
- Write-offs	-	-	(2,994)	(2,994)
New financial assets originated or purchased	5,239,975	175,962	83,709	5,499,646
Financial assets that have been derecognized	(6,939,243)	(210,455)	(50,878)	(7,200,576)
-Write-offs	-	-	11,542	11,542
New financial assets originated or purchased	(411,958)	-	-	(411,958)
Financial assets that have been derecognised	408,664	(28,949)	41,362	421,078
Gross carrying amounts as at 31 December 2021	10,826,980	602,526	1,554,060	12,983,566
Grand Total amounts as at 31 December 2021	13,784,877	826,852	4,085,342	18,697,071

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

December 2020

Gross carrying amounts- Loans and advances to customers at amortized cost	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
SME				
Gross carrying as at 1 January 2020	1,830,414	276,775	1,470,754	3,577,943
- Transfer to stage 1	297,742	(100,946)	(196,796)	-
- Transfer to stage 2	(69,785)	178,674	(108,889)	-
- Transfer to stage 3	(397,247)	(156,142)	553,389	-
- Write-offs	-	-	(5,031)	(5,031)
New financial assets originated or purchased	858,714	17,676	75,753	952,143
Financial assets that have been derecognized	(937,908)	(108,957)	(19,285)	(1,066,150)
-Write-offs	-	-	46,951	46,951
New financial assets originated or purchased	(70,735)	-	-	(70,735)
Financial assets that have been derecognised	185,194	86,164	(141,572)	129,786
Gross carrying amounts as at 31 December 2020	1,581,930	107,080	1,769,895	3,458,905
Community				
Gross carrying as at 1 January 2020	1,749,256	252,050	591,597	2,592,903
- Transfer to stage 1	283,098	(116,710)	(166,388)	-
- Transfer to stage 2	(63,991)	113,941	(49,950)	-
- Transfer to stage 3	(621,362)	(73,204)	694,566	-
- Write-offs	-	-	(9,826)	(9,826)
New financial assets originated or purchased	858,714	87,565	107,243	1,053,522
Financial assets that have been derecognized	(942,593)	(106,003)	(51,458)	(1,100,054)
-Write-offs	-	-	-	-
New financial assets originated or purchased	(26,924)	(2,232)	(16,764)	(45,920)
Financial assets that have been derecognised	7,524	(3,678)	(140,645)	(136,800)
Gross carrying amounts as at 31 December 2020	1,263,122	157,639	1,115,784	2,536,545

Gross carrying amounts- Loans and advances to customers at amortized cost	Stage 1 12-month ECL Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
Retail				
Gross carrying as at 1 January 2020	14,543,527	222,027	564,240	15,329,794
- Transfer to stage 1	293,146	(103,834)	(189,312)	-
- Transfer to stage 2	(517,353)	587,358	(70,005)	-
- Transfer to stage 3	(659,759)	(242,240)	901,999	-
- Write-offs	-	-	(81,419)	(81,419)
New financial assets originated or purchased	6,247,488	233,614	84,658	6,565,760
Financial assets that have been derecognized	(7,000,815)	(72,277)	(53,553)	(7,126,645)
-Write-offs	-	-	11,542	11,542
New financial assets originated or purchased	(411,958)	-	-	(411,958)
Financial assets that have been derecognised	408,664	(28,949)	41,362	421,078
Gross carrying amounts as at 31 December 2020	12,906,234	624,648	1,156,608	14,687,490
Grand Total amounts as at 31 December 2020	15,751,288	889,366	4,042,286	20,682,940



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2021

Loss allowance- Loans and advances to customers at amortised cost	Stage 1 Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
SME				
Loss allowance as at 1 January 2021	(9,853)	(5,394)	(848,451)	(863,698)
Amount charged to P&L (sub-total)	2,086	5,326	(148,698)	(141,286)
Originations, purchases and interest accruals	(2,485)	162	188	(2,135)
Repayments & other derecognitions, excl write-offs	6,851	710	(182,231)	(174,670)
Changes in the loss allowance				
-Transfer to stage 1	(58,225)	26,777	31,448	-
-Transfer to stage 2	24,643	(28,196)	3,553	-
-Transfer to stage 3	35,349	6,217	(41,566)	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations	(4,047)	(344)	39,910	35,519
-Write-offs	-	-	311,584	311,584
Loss allowance as at 31 December 2021	(7,767)	(68)	(685,565)	(693,400)
Community				
Loss allowance as at 1 January 2021	(95,617)	(49,294)	(618,402)	(763,313)
Amount charged to P&L (sub-total)	48,191	7,290	(185,014)	(129,532)
Originations, purchases and interest accruals	(100,958)	(6,159)	(54,942)	(162,059)
Repayments & other derecognitions, excl write-offs	35,102	18,045	26,229	79,376
Changes in the loss allowance				
-Transfer to stage 1	(19,156)	4,583	14,573	-
-Transfer to stage 2	66,712	(68,479)	1,767	-
-Transfer to stage 3	120,045	66,263	(186,308)	-

Loss allowance- Loans and advances to customers at amortised cost	Stage 1 Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
-Changes to model and risk parameters used for ECL calculations	(53,553)	(6,963)	13,667	(46,849)
-Write-offs	-	-	4,564	4,564
Loss allowance as at 31 December 2021	(47,426)	(42,004)	(798,852)	(888,282)
Retail				
Loss allowance as at 1 January 2021	(286,197)	(326,156)	(882,415)	(1,494,768)
Amount charged to P&L (sub-total)	64,684	62,318	(372,906)	(245,902)
Originations, purchases and interest accruals	(370,674)	(19,766)	(68,694)	(459,134)
Repayments & other derecognitions, excl write-offs	117,195	130,055	23,878	271,128
Changes in the loss allowance				
-Transfer to stage 1	(120,656)	68,262	52,394	-
-Transfer to stage 2	252,084	(270,419)	18,335	-
-Transfer to stage 3	224,011	212,866	(436,877)	-
-Changes due to modification that did not result in derecognition.				
-Changes to model and risk parameters used for ECL calculations	(37,274)	(58,680)	38,058	(57,896)
-Write-offs	-	-	2,994	2,994
Loss allowance as at 31 December 2021	(221,513)	(263,838)	(1,252,327)	(1,737,678)
Grand Total Loss Allowance as at 31 December 2021	(276,703)	(305,910)	(2,736,744)	(3,319,357)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

31 December 2020

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

Loss allowance- Loans and advances to customers at amortised cost	Stage 1 Sh'000	Stage 2 Lifetime ECL Sh'000	Stage 3 Lifetime ECL Sh'000	Total Sh'000
-Changes to model and risk parameters used for ECL calculations	(24,066)	8,446	109,762	94,142
-Write-offs	-	-	9,826	9,826
Loss allowance as at 31 December 2020	(95,617)	(49,293)	(618,405)	(763,315)
Retail				
Loss allowance as at 1 January 2020	(307,528)	(114,664)	(532,109)	(954,301)
Amount charged to P&L (sub-total)	21,330	(211,491)	(431,725)	(621,886)
Originations, purchases and interest accruals	(220,564)	(118,588)	(75,672)	(414,824)
Repayments & other derecognitions, excl write-offs	117,074	30,217	56,061	203,352
Changes in the loss allowance				
-Transfer to stage 1	(95,740)	1,276	120,867	26,403
-Transfer to stage 2	45,464	(259,325)	65,243	(148,618)
-Transfer to stage 3	208,411	160,239	(772,588)	(403,938)
-Changes due to modification that did not result in derecognition.	-	-	-	-
-Changes to model and risk parameters used for ECL calculations	(33,315)	(25,310)	174,364	115,739
-Write-offs	-	-	81,419	81,419
Loss allowance as at 31 December 2020	(286,198)	(326,155)	(882,415)	(1,494,768)
Grand Total Loss Allowance as at 31 December 2020	(391,668)	(380,841)	(2,349,270)	(3,121,779)



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (Continued)

Credit quality (continued)

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

Loans to customers

	Gross Shs '000	Net Shs '000
31 December 2021		
IFRS 9 Stage 1 (0- 30 days)	13,784,877	13,508,173
IFRS 9 Stage 2 (31- 90 days)	826,852	520,941
IFRS 9 Stage 3 (Over 90 days)	4,085,342	1,348,601
	18,697,071	15,377,715
31 December 2020		
Neither past due nor impaired (0-30 days)	15,751,288	15,374,332
Past due but not impaired (31-90 days)	889,366	508,524
Impaired (Over 90 days)	4,042,286	1,678,306
	20,682,940	17,561,162

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 449,995,000 (2020: Shs 478,033,000).

Other forms of collateral include land, buildings and motor vehicles with total capped value of Shs. 3.2 billion (2020: Shs 3.4 Billion)

b) Liquidity risk

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

(i) Management of liquidity risk

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

A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity ratio as at 31 December 2021 was 34.2% (2020: 26.5%). 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 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

As at December 2021	Maturing in less than 1 month Shs '000	1 month less than 3 month Shs '000	3 month less than 6 month Shs '000	6 month less than 1 year Shs '000	1 year less than 3 year Shs '000	3 year less than 5 year Shs '000	Over 5 years Shs '000	Total Shs '000
FINANCIAL LIABILITIES								
Cash collateral held	54,034	30,513	59,124	110,746	189,103	6,476	-	449,996
Borrowings	6,944	33,520	20,834	61,297	163,888	-	400,000	686,483
Customer deposits	8,010,984	6,772,235	3,575,454	2,573,982	66,786	-	-	20,999,441
Total liabilities (contractual maturity dates)	8,071,962	6,836,268	3,655,412	2,746,025	419,777	6,476	400,000	22,135,920
FINANCIAL ASSETS								
Cash and bank balances	742,355	-	-	-	-	-	-	742,355
Short term deposits	622,688	52,650	549,524	6,664	-	-	-	1,231,526
Cash reserve requirement	1,059,152	-	-	-	-	-	-	1,059,152
Government securities	3,460,637	1,050,000	-	400,000	-	-	-	4,910,637
Loans to customers (net)	1,128,890	1,317,032	1,337,480	1,709,175	5,145,182	3,284,753	2,550,886	16,473,398
Total assets (expected maturity dates)	7,013,722	2,419,682	1,887,004	2,115,839	5,145,182	3,284,753	2,550,886	24,417,068
NET LIQUIDITY GAP	(1,058,240)	(4,416,586)	(1,768,408)	(630,186)	4,725,405	3,278,277	2,150,886	2,281,148
As at 31 December 2020								
Total liabilities (contractual maturity dates)	8,605,673	7,863,257	5,010,452	2,861,798	598,077	7,695	1,681	24,948,633
Total assets (expected maturity dates)	6,022,542	2,274,149	2,066,528	2,100,262	5,873,729	4,017,765	2,998,317	25,353,291
NET LIQUIDITY GAP	(2,583,131)	(5,589,108)	(2,943,924)	(761,536)	5,275,652	4,010,070	2,996,636	404,658



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Risk Compliance and Credit Committee which is responsible for the development of detailed risk management policies. The policies are subject to review and approval by the board.

Exposure to interest rate risk

The 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 risk committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the end of reporting period. The 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 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risks (continued)

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

	Less than 1 month Shs '000	1 month less than 3 month Shs '000	3 month less than 6 month Shs '000	6 month less than 1 year Shs '000	1 year less than 3 year Shs '000	3 year less than 5 year Shs '000	Over 5 years Shs '000	Non-interest bearing Shs '000	Total Shs '000
A. FINANCIAL ASSETS									
Cash and bank balances	742,355	-	-	-	-	-	-	-	742,355
Short term deposits	622,688	52,650	549,524	6,664	-	-	-	-	1,231,526
Cash reserve ratio (CBK)	-	-	-	-	-	-	-	1,059,152	1,059,152
Government securities	3,460,637	1,050,000	-	400,000	-	-	-	-	4,910,637
Loans to customers (net)	1,128,890	1,317,032	1,337,480	1,709,175	5,145,182	3,284,753	2,550,886	-	16,473,398
Total financial assets	5,954,570	2,419,682	1,887,004	2,115,839	5,145,182	3,284,753	2,550,886	1,059,152	24,417,068
B. FINANCIAL LIABILITIES									
Borrowings	6,944	33,520	20,834	61,297	163,888	-	400,000	-	686,484
Customer deposits	8,010,984	6,772,235	3,575,454	2,573,982	66,786	-	-	-	20,999,441
Cash collateral held	-	-	-	-	-	-	-	449,996	449,996
Total financial liabilities	8,017,928	6,805,755	3,596,288	2,635,279	230,674	-	400,000	449,996	22,135,921
C. On statement of financial position-interest sensitivity gap	(2,063,358)	(4,386,073)	(1,709,284)	(519,440)	4,914,508	3,284,753	2,150,886	609,156	2,281,147
D. As at 31 December 2018									
Total financial assets	1,873,130	3,256,618	1,919,978	2,761,902	6,517,896	4,635,367	4,246,820	1,019,103	26,230,814
Total financial liabilities	3,867,125	8,004,678	5,424,390	4,253,639	2,355,183	-	-	491,063	24,396,078
E. On statement of financial position- interest sensitivity gap	(1,993,995)	(4,748,060)	(3,504,412)	(1,491,737)	4,162,713	4,635,367	4,246,820	528,040	1,834,736



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risks (continued)

Interest rate risk stress test

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

		2021		2020
	Effect on profit	Shs '000	Effect on equity	Shs '000
3% increase in interest rates	(43,501)	(30,451)	(11,594)	(8,116)
3% decrease in interest rates	43,501	30,451	11,594	8,116

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

Currency risk

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

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

	Shs '000	USD	Euro	GBP	Total Shs '000'
A. ASSETS					
Cash and bank balances	727,101	12,061	2,810	321	742,293
Short term deposits with banks	556,693	148,967	-	532,559	1,238,219
Cash reserve ratio (CBK)	1,040,921	12,030	1	6,175	1,059,127
Government securities	4,997,463	-	-	-	4,997,463
Loans to customers (net)	15,377,715	-	-	-	15,377,715
Total financial assets	22,699,893	173,058	2,811	539,055	23,414,817
B. LIABILITIES					
Cash collateral held	449,996	-	-	-	449,996
Borrowings	692,139	-	-	-	692,139
Customer deposits	20,332,915	195,314	4	546,064	21,074,297
Total financial liabilities	21,475,050	195,314	4	546,064	22,216,432
C NET BALANCE SHEET POSITION	1,224,843	(22,256)	2,807	(7,009)	1,198,385
As at 31 December 2018					
A Total financial assets	24,700,281	151,884	1,969	499,080	25,353,214
B Total financial liabilities	24,948,633	136,114	1	509,800	25,594,548
C NET BALANCE SHEET POSITION	(248,352)	15,770	1,968	(10,720)	(241,334)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risks (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.

	2021 Shs '000 Effect on profit	2020 Shs '000 Effect on profit
Currency – Euro		
+ 10% Shs movement	(2,196)	(360)
- 10% Shs movement	2,196	360
Currency - US dollars		
+ 10% Shs movement	(10,660)	(39,696)
- 10% Shs movement	10,660	39,696
Currency – GBP		
+ 10% Shs movement	(350,361)	(49,782)
- 10% Shs movement	350,361	49,782

4. CAPITAL RISK MANAGEMENT

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

The Microfinance bank regulatory capital is analysed into two tiers:

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

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

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

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL RISK MANAGEMENT

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

- A minimum level of regulatory capital of Shs 60 million.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

Faulu Microfinance Bank Limited reported some breaches in the regulatory capital ratios within the year 2021. However, the main shareholder Old Mutual Limited injected capital amounting to Shs. 1.45 billion on 31 March 2021. The capital was divided into Tier 1 Shs 550 million and Tier 2 Shs 900 million.

The capital position as at 31 December 2021 was as follows;

	BANK	
	2021 Shs '000	2020 Shs '000
Tier 1 capital		
Share capital	659,996	480,000
Share premium	3,769,763	2,899,759
Retained earnings / (accumulated deficit)	(982,138)	(748,012)
Total deductions	(1,261,071)	(831,586)
	2,186,551	1,800,161
Tier 2 capital		
Revaluation reserve	68,830	68,829
Term subordinated debt	400,000	-
	468,830	68,829
Regulatory capital	2,655,381	1,868,990
Total risk-weighted assets	17,885,295	19,715,361

Borrowings	692,139	2,017,292
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum -12%)	14.8%	9.5%
Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum -10%)	12.2%	9.1%

The Insurance Regulatory Authority (IRA) requires each insurance broker and agency to maintain a minimum level of regulatory capital of Shs 5,000,000 (2020 Shs 5,000,000). As at 31 December 2021, the subsidiary Faulu MFB Insurance Agency Limited had a capital of Shs 99,796,000 (2020: Shs 76,997,000).

Capital allocation

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

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTEREST INCOME

	GROUP AND BANK			
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Loans and receivables	3,647,803	3,947,841	3,647,803	3,947,841
Short term bank deposits	63,734	95,276	63,734	95,276
Government securities	550,108	456,773	548,941	456,773
	4,261,645	4,499,890	4,260,478	4,499,890

6. INTEREST EXPENSE

	GROUP AND BANK			
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Savings accounts	1,844,966	1,865,720	1,848,812	1,865,720
Borrowed funds	222,159	370,078	222,159	370,078
Interest expense on lease liability	56,343	47,332	56,343	47,332
	2,123,468	2,283,130	2,127,314	2,283,130

7. FEES AND COMMISSIONS

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Registration fees	528	368	528	368
Loan set up fees	186,840	289,085	186,840	289,085
Commission (net)	92,131	117,748	48,474	81,720
Chattels mortgage fees	16,786	14,199	16,786	14,199
	296,285	421,400	252,628	385,372

7b. OTHER INCOME

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Bad debts recovered	20,790	26,302	20,790	26,302
Other income	113	7,714	113	2,965
	20,903	34,016	20,903	29,267



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 OPERATING INCOME AND NET OPERATING LOSS

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

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

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

9. ADMINISTRATION AND OPERATING EXPENSES

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2020 Shs '000	2020 Shs '000
Staff costs (note 10)	1,007,463	908,152	998,591	902,578
Office operations and supplies	579,851	569,999	579,641	569,903
Training and evaluation	6,149	8,289	6,149	8,289
Office rent and repairs	6,579	21,957	6,579	21,957
Travelling expenses	34,939	29,057	34,939	29,057

Depreciation of property and equipment	137,002	130,957	136,949	130,890
Depreciation on right-of use-of asset	200,328	143,660	200,328	143,660
Audit fees	6,490	6,492	5,965	5,965
Loss on disposal of a motor vehicle	176	(857)	176	(857)
Amortisation of intangible assets	82,009	91,216	79,551	90,665
Directors' fees	18,168	13,230	14,562	12,270
Other expenses	362,419	217,475	360,013	216,103
Assets written off	-	25,050	-	25,050
Intangible assets written off	-	1,988	-	1,988
	2,441,573	2,166,665	2,423,443	2,157,518

10. STAFF COSTS

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Staff salaries and wages	787,381	712,510	779,336	706,936
Medical expenses	122,725	137,053	122,725	137,053
Defined contribution pension scheme	58,055	60,044	58,055	60,044

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. STAFF COSTS(continued)

10. STAFF COSTS ... Cont

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Statutory pension contribution (NSSF)	3,319	1,345	2,730	1,345
Recruitment	1,056	2,824	1,056	2,824
Staff welfare & entertainment	4,883	5,323	4,883	5,323
Staff bonus	12,124	(26,736)	12,032	(26,736)
Leave provision	13,110	9,993	13,019	9,993
Staff welfare-other	4,810	5,796	4,755	5,796
	915,502	968,567	908,785	957,806

11. a) IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January	3,170,065	2,312,208	3,167,560	2,311,760
Additional provision during the year	516,915	954,132	518,235	952,075

Loans written off during the year	(319,143)	(96,275)	(319,143)	(96,275)
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At 31 December **3,367,837** **3,170,065** **3,366,652** **3,167,560**

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

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Loans to customers	3,319,356	3,121,778	3,319,356	3,121,778
Cash balances with Central Bank of Kenya	25	33	25	33
Balances due from banks and financial institutions	55	78	55	78
Short term deposits banks	600	2,026	600	2,026
Government securities	30,757	24,579	30,757	24,579
Other assets	17,044	21,571	15,859	19,066
	3,367,837	3,170,065	3,366,652	3,167,560



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. TAXATION

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
a) Taxation Charge				
Current tax expense				
Based on the adjusted profit for the year at 30% (2020 - 25%)	9,590	119,668	-	114,908
Prior year under provision of current tax	138,782	2,418	138,782	2,418
Share of associate company taxation (note 18(a))	952	970	952	970
Total current tax charge	149,324	123,056	139,734	118,296
Deferred tax credit for current year	(128,080)	(251,734)	(128,226)	(251,494)
Prior under provision of deferred tax asset (note 19)	(126,504)	56,344	(126,496)	56,344
Total deferred tax credit	(254,586)	(195,390)	(254,722)	(195,150)
Tax income	(105,260)	(72,334)	(114,988)	(76,854)

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

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2020 Shs '000	2020 Shs '000
Accounting loss before tax	(489,796)	(446,417)	(524,829)	(475,990)
Tax at the applicable rate of 30% (2020: 25%)	(146,939)	(111,604)	(157,449)	(118,998)
Tax effect of expenses not deductible for tax purposes	29,951	21,459	29,223	24,272
Prior year under provision of current tax	138,782	2,418	138,782	2,418
Prior year over/under provision of deferred tax asset (note 19)	(126,505)	56,344	(126,496)	56,344
Effect of change in tax rate on deferred tax 30% (2020: 25%)	(1,501)	(41,921)	-	(41,860)
	(106,212)	(73,304)	(115,940)	(77,824)
Share of associate company tax (note 18(a))	952	970	952	970
	(105,260)	(72,334)	(114,988)	(76,854)
At 1 January	(334,779)	(162,337)	(337,493)	(164,649)
Charge for the year	9,506	119,668	-	114,908
Prior year under provision of current tax	138,782	2,418	138,782	2,418
Paid in the year	(101,004)	(294,528)	(85,564)	(290,170)
Written back to profit or loss	(5,911)	-	-	-
At 31 December	(293,406)	(334,779)	(284,275)	(337,493)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. TAXATION (CONTINUED)

12. TAXATION

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

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2020 Shs '000	2020 Shs '000
Current tax assets	(293,406)	(337,493)	(284,275)	(337,493)
Current tax liabilities	-	2,714	-	-
	(293,406)	(334,779)	(284,275)	(337,493)

13. SHORT TERM DEPOSITS WITH BANKS

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
Amortized cost		
The Co-operative Bank of Kenya Limited	224,137	200,803
Kenya Commercial Bank PLC	184,985	202,455
Equity Bank PLC	-	202,178
Stanbic Bank Kenya Limited	251,674	505,731
Diamond Trust Bank	274,510	98,692
Family Bank Limited	-	186,666
SBM Bank Limited	303,507	57,543

	1,238,813	1,454,068
Less: allowance for credit losses (Note (11(b)))	(594)	(2,026)
	1,238,219	1,452,042

Effective interest rate average 5.9% in 2021 and 7.2% in 2020. All the deposits have maturity of not more than 90 days.

14. CASH BALANCES WITH CENTRAL BANK OF KENYA

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
Gross Cash reserve requirement	1,059,152	1,419,935
Less: allowance for credit losses (Note (11(b)))	(25)	(33)
	1,059,127	1,419,902

As at 31 December 2021, the cash ratio requirement was 4.25% (2020: 4.25%) of eligible deposits. These funds are not available for the day-to-day operations of the Group and are non-interest bearing. The Banks's cash ratio at the end of the reporting period was 5.24% (2020: 6.67%)



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LOANS TO CUSTOMERS

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Gross loans to customers	17,531,237	19,554,098
Interest receivable from loans and advances to customers	1,165,834	1,128,842
Less: allowance for credit losses (Note (11(b)))	(3,319,356)	(3,121,778)
	15,377,715	17,561,162

The effective interest rate on customer advances at 31 December 2021 was 19.5% (2020: 20.4%). Advances to customers are secured by cash collaterals (note 23) and chattels mortgages. Other forms of collateral include land, buildings, and motor vehicles.

16. GOVERNMENT SECURITIES

	GROUP AND BANK			
	2021	2020	2021	2020
	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	3,517,779	2,459,364	3,506,074	2,459,364
	3,517,779	2,459,364	3,506,074	2,459,364

Treasury bonds - Amortised cost	1,522,146	1,859,610	1,522,146	1,859,610
	5,039,925	4,318,974	5,028,220	4,318,974
Less: allowance for credit losses (Note (11(b)))	(31,179)	(24,579)	(30,757)	(24,579)
	5,008,746	4,294,395	4,997,463	4,294,395

The effective interest rate on government securities during the year ended 31 December 2021 was 11.7% (2020 – 10.6%).

Treasury bonds worth Shs 450 million (2020: Shs. 675 million) are pledged as security for the Absa Bank Kenya PLC borrowing shown on note 25.

17. OTHER ASSETS

	GROUP		BANK	
	2019	2018	2019	2018
	Shs '000	Shs '000	Shs '000	Shs '000
Staff receivables	12,735	15,824	12,735	15,824
Prepaid expenses	140,578	189,866	139,584	189,866
Deposits and sundry receivables	386,338	197,679	386,338	195,344
Commission receivable	5,457	6,510	-	-
	545,108	409,879	538,657	401,034
Less: allowance for credit losses (note (11(b)))	(16,622)	(21,571)	(15,859)	(19,066)
	528,486	388,308	522,798	381,968

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY

(a) Investments in associate company

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Faulu Advisory Services Limited:		
At 1 January	55,952	53,039
Share of profit for the year	3,174	3,883
Share of tax expense (note 12(a))	(952)	(970)
At 31 December	58,174	55,952

The reporting date of Faulu Advisory Services Limited ("Faulu Advisory") is 31 December. Faulu Advisory is incorporated in Kenya which is also its principal place of business. The Group holds 25% ownership interest in the associate company. Its principal activity is guaranteeing loans advanced by Faulu Microfinance 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:

	2021	2020
	Shs '000	Shs '000
	Non-current assets	27,099

Current assets	127,334	128,266
	154,433	144,134
Current liabilities	(33,875)	(35,085)
Revenue	64,030	61,356
Profit from continuing operations before tax	14,104	17,257
Other comprehensive income	-	-
Total comprehensive income	14,104	17,257

(b) Investments in Subsidiary - Faulu Microfinance Bank Insurance Agency Limited

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

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

This subsidiary is 100% owned and fully controlled by the Group. This investment is recognised at a cost of Shs. 5,000,000 (2020: 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.



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANY

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

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

Faulu Microfinance Bank Insurance Agency Limited

	2021	2020
	Shs '000	Shs '000
Summarised statement of financial position		
Total assets	108,890	81,780
Total liabilities	9,094	(4,200)
Net assets	117,898	77,580
Summarised statement of profit and loss and other comprehensive income		
Revenue	48,670	40,777
Profit before tax	31,860	29,573
Tax expense	(9,728)	(4,520)
Total comprehensive income for the year	22,132	25,053
Summarised statement of cash flows		
Net cash generated from operating activities	22,866	3,183
Net cash generated from investing activities	(12,422)	(7,183)
Net increase in cash and cash equivalents	12,634	10,520
Cash and cash equivalents at beginning of year	66,439	70,439
Cash and cash equivalents at end of year	76,883	66,439

19 DEFERRED TAX (ASSET)/ LIABILITY

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
The net deferred tax asset is attributable to the following items:				
Excess depreciation of capital allowances	102,987	115,678	102,861	115,678
Deferred tax on revaluation surplus	109,389	106,471	109,389	106,471
Right of use assets	144,287	102,502	144,287	102,502
Provisions	(13,589)	(9,277)	(13,589)	(9,277)
Impairment loss allowance	(1,012,940)	(950,635)	(1,012,584)	(950,268)
Lease liabilities	(178,278)	(126,680)	(178,278)	(126,680)
Tax losses	(177,442)	-	(177,442)	-
Other temporary differences	-	(9,060)	-	(9,060)
	(1,025,586)	(771,001)	(1,025,356)	(770,634)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 DEFERRED TAX (ASSET)/ LIABILITY (Continued)

The Group's movements in the deferred tax account during the year were as follows

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



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 DEFERRED TAX (ASSET)/ LIABILITY(Continued)

The Group's movements in the deferred tax account for the year 2020 were as follows:

	At the beginning of the year 2020 Shs'000	Prior year over/under Shs'000	Credit to P/L Shs'000	Charged for other comprehensive income Shs'000	At the end of the period 2020 Shs'000
2020					
Excess depreciation of capital allowances	131,510	-	(15,448)	-	116,062
Deferred tax on revaluation surplus	97,614	-	(331)	9,187	106,470
Right of use assets	136,160	-	(33,658)	-	102,502
Provisions and accruals	(47,738)	36,426	(3,308)	-	(14,620)
Impairment loss allowance	(755,747)	-	198,989)	-	(954,736)
Lease liabilities	(146,598)	19,918	-	-	(126,680)
	(584,799)	56,344	(251,734)	9,187	(771,002)

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 DEFERRED TAX (ASSET)/ LIABILITY(Continued)

The Bank's movements in the deferred tax account for the year 2020 were as follows:

	At the beginning of the year 2020 Shs'000	Prior year over/under Shs'000	Credit to P/L Shs'000	Charged for other comprehensive income Shs'000	At the end of the period 2020 Shs'000
Excess depreciation of capital allowances	131,503	-	(15,825)	-	115,678
Deferred tax on revaluation surplus	97,615	-	(331)	9,187	106,471
Right of use assets	136,160	-	(33,658)	-	102,502
Provisions and accruals	(47,738)	36,426	(2,557)	-	(13,869)
Impairment loss allowance	(755,613)		(199,123)	-	(954,736)
Lease liabilities	(146,598)	19,918	-	-	(126,680)
	(584,671)	56,344	(251,494)	9,187	(770,634)



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. PROPERTY AND EQUIPMENT – GROUP

	Freehold land and buildings Shs '000	Motor vehicles Shs '000	Computers and equipment Shs '000	Electronic office equipment Shs '000	Durable non-electrical equipment Shs '000	Work in progress (WIP) Shs '000	Total Shs '000
COST/VALUATION							
At 1 January 2020	405,000	40,061	149,545	188,813	1,600,738	84,510	2,468,667
Additions	-	-	32,016	55,593	10,639	89,527	187,775
Transfer from WIP	-	-	73	-	26,908	(26,981)	-
Disposals	-	(3,437)	-	-	-	-	(3,437)
Assets written off	-	-	-	(1,514)	(36,961)	-	(38,475)
Revaluation surplus	30,624	-	-	-	-	-	30,624
At 31 December 2020	435,624	36,624	181,634	242,892	1,601,324	147,056	2,645,154
At 1 January 2021	435,624	36,624	181,634	242,892	1,601,324	147,056	2,645,154
Additions	-	-	17,141	73,672	8,441	111,060	210,314
Transfer from WIP	-	-	-	10,109	25,341	(35,450)	-
Disposals	-	-	(3,291)	(4,783)	(518)	(35,958)	(44,550)
At 31 December 2021	435,624	36,624	195,484	321,890	1,634,588	186,708	2,810,918
DEPRECIATION							
At 1 January 2020	7,520	18,669	114,861	120,594	861,061	-	1,122,705
Depreciation for the year	1,104	5,348	13,898	23,668	86,939	-	130,957
Eliminated on write off	-	(3,437)	-	-	-	-	(3,437)
Eliminated on disposals	-	-	-	(967)	(12,458)	-	(13,425)
At 31 December 2020	8,624	20,580	128,759	143,295	935,542	-	1,236,800
At 1 January 2021	8,624	20,580	128,759	143,295	935,542	-	1,236,800
Depreciation for the year	1,343	4,011	18,213	32,978	80,457	-	137,002
Eliminated on disposals	-	-	(451)	(593)	(352)	-	(1,396)
At 31 December 2021	9,967	24,591	146,521	175,680	1,015,647	-	1,372,406
NET BOOK VALUE							
At 31 December 2020	427,000	16,044	52,875	99,597	665,782	147,055	1,408,353
At 31 December 2021	425,657	12,033	48,963	146,210	618,941	186,707	1,438,511

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. PROPERTY AND EQUIPMENT –BANK (continued)

20. PROPERTY AND EQUIPMENT – BANK

	Freehold land and buildings Shs '000	Motor vehicles Shs '000	Computers and equipment Shs '000	Electronic office equipment Shs '000	Durable non-electrical equipment Shs '000	Work in progress (WIP) Shs '000	Total Shs '000
COST/VALUATION							
At 1 January 2020	405,000	40,061	149,295	188,784	1,600,384	84,509	2,468,033
Additions	-	-	32,016	55,593	10,639	89,527	187,775
Transfer from WIP	-	-	73	-	26,908	(26,981)	-
Disposals	-	(3,437)	-	-	-	-	(3,437)
Assets written off	-	-	-	(1,514)	(36,961)	-	(38,475)
Revaluation surplus	30,624	-	-	-	-	-	30,624
At 31 December 2020	435,624	36,624	181,384	242,863	1,600,970	147,055	2,644,520
At 1 January 2021	435,624	36,624	181,384	242,863	1,600,970	147,055	2,644,520
Additions	-	-	17,141	73,672	8,441	111,060	210,314
Transfer from WIP	-	-	-	10,108	25,342	(35,450)	-
Disposals	-	-	(3,291)	(4,784)	(518)	(35,959)	(44,552)
At 31 December 2021	435,624	36,624	195,234	321,859	1,634,235	186,706	2,810,282
DEPRECIATION							
At 1 January 2020	7,520	18,668	114,728	120,582	860,971	-	1,122,469
Depreciation for the year	1,104	5,348	13,872	23,663	86,902	-	130,889
Eliminated on disposal	-	(3,437)	-	-	-	-	(3,437)
Eliminated on write off	-	-	-	(967)	(12,457)	-	(13,424)
At 31 December 2020	8,624	20,579	128,600	143,278	935,416	-	1,236,497
At 1 January 2021	8,624	20,579	128,600	143,278	935,416	-	1,236,497
Depreciation for the year	1,342	4,011	18,197	32,975	80,424	-	136,949
Eliminated on disposals	-	-	(452)	(593)	(353)	-	(1,398)
At 31 December 2021	9,966	24,590	146,345	175,660	1,015,487	-	1,372,048
NET BOOK VALUE							
At 31 December 2020	427,000	16,045	52,784	99,585	665,554	147,055	1,408,023
At 31 December 2021	425,658	12,034	48,889	146,199	618,748	186,706	1,438,234



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. PROPERTY AND EQUIPMENT –GROUP(continued)

Land and buildings was revalued at Shs 435,624,067 as at 31 December 2020 by Gimco Limited, registered valuers.

At 31 December 2021, the net book value of the freehold land and building based on revalued amount was Shs 22,715,675 (2020: Shs 23,483,500)

The Group property and equipment balance of Shs. 1,438,511,185 (2020: Shs 1,408,353,000) includes the subsidiary's assets with a net book value of Shs 276,951 (2020: Shs 330,000).

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 2020 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 2021 are as per below table. There were no transfers between level 1 and level 2 during the year

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value at 31 December Shs'000
31 December 2021				
Land	-	370,000	-	370,000
Building	-	-	65,624	65,624
31 December 2020				
Land	-	370,000	-	370,000
Building	-	-	57,000	57,000

Quantitative information of significant unobservable inputs – Level 3:

Description	Unobservable input	Range	GROUP AND BANK	
			2021 USD	2020 USD
Land and build- ings	Professional Property valuers	n/a		118,006

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. INTANGIBLE ASSETS – COMPUTER SOFTWARE

	GROUP AND BANK			
	2019			2018
	Shs '000			Shs '000
COST				
At 1 January	1,354,822	1,346,759	1,347,639	1,346,759
Additions	1,139	11,418	-	4,235
Assets written off	-	(3,355)	-	(3,355)
At 31 December	1,355,961	1,354,822	1,347,639	1,347,639
AMORTISATION				
At 1 January	724,196	634,347	723,644	634,347
Charge for the year	82,008	91,216	79,551	90,665
Eliminated on write off	-	(1,367)	-	(1,367)
At 31 December	806,204	724,196	803,195	723,645
NET BOOK VALUE				
At 31 December	549,757	630,626	544,444	623,994

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	
	2021 Shs '000	2020 Shs '000
COST		
At 1 January	607,010	578,117
Additions	360,306	44,872
Lease terminations	(28,674)	(15,979)
At 31 December	938,642	607,010
ACCUMULATED DEPRECIATION		
At 1 January	265,336	124,250
Charge for the year	200,328	143,660
Eliminated on lease terminations	(7,978)	(2,574)
At 31 December	457,686	265,336
NET BOOK VALUE		
453,867		
Amounts recognised in profit or loss		
Depreciation expense on right-of-use assets	200,328	143,660
Interest expense on lease liabilities	56,343	47,332
Gain on termination of leases	7,978	(1,138)
	264,649	189,854

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

The total cash outflow for leases amounted to Shs 215,981,016 (2020: Shs 144,052,940). There are no restrictions or covenants imposed by lessors and the Group did not enter into any sale and leaseback transactions during the year (2020: Nil).



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. CASH COLLATERALS HELD

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

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
0 - 30 days	401,702	373,538
31 - 90 days	19,520	14,488
91 - 180 days	8,903	16,122
Over 180 days	19,871	73,885
	449,996	478,033

24. CUSTOMER DEPOSITS

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Savings account	2,762,825	2,559,657	2,762,825	2,559,657
Fixed account	18,234,589	19,827,212	18,311,472	19,893,651
	20,997,414	22,386,869	21,074,297	22,453,308

The effective interest rate on customer deposits as at 31 December 2021 is 10.3% p.a (2020: 10.7% p.a).

25. BORROWINGS

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Loans:		
Symbiotics SA	-	402,658
Oiko Credit (i)	154,700	300,000
IFAD (ii)	40,100	78,523
Absa Bank Kenya PLC (iii)	97,339	236,111
Stanbic Bank Kenya Limited	-	1,000,000
Old Mutual Holding Limited (iv)	400,000	-
	692,139	2,017,292

The borrowings are repayable as follows:

Within 1 year	252,039	1,730,808
After 1 year within 3 years	40,100	286,484
Over 5 Years	400,000	-
	692,139	2,017,292

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

i) Oiko Credit

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

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. BORROWINGS(continued)

ii)International Fund for Agricultural Development (IFAD)

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

iii)Absa Bank Kenya PLC

Absa Bank Kenya PLC facilities of Shs 250 million from with interest pegged to the Central Bank Rate (CBR) plus a margin of 2.75% repayable monthly for a term of 36 months. The facility is secured by government securities as disclosed in note 16.

iv)Old mutual Holding Limited

The subordinated debt Shs 400 million facility with interest rate of 14.41% repayable in 5 years is subject to average interest charged at the prevailing 91 days treasury bill rate plus a margin of 7.5%. Interest on the facility is payable on a quarterly basis with annual repayment of the principal balances to commence after 5 years. The facility is due to mature on 31 March 2028.

Breach of covenants

Faulu Microfinance Bank Limited has existing covenants with its lenders which requires the Group to maintain certain minimum and maximum ratios. The covenants breaches during the year were mitigated through temporal waivers granted by all the lenders with outstanding exposures at year end and therefore no breaches existed as at 31 December 2021. The table below summarises the breach.

Oiko Credit	Uncovered capital ratio	<=15%	17.39%
Absa Bank	PAR* >90 Days	<=12%	17.52%

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

26. OTHER LIABILITIES

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Accrued expenses	177,766	184,983	176,890	184,983
Staff leave provision	26,569	21,660	26,569	21,660
Bonus provision	8,916	9,263	8,916	9,263
Sundry liabilities	1,171,523	754,370	1,168,285	752,884
	1,384,774	970,276	1,380,660	968,790

27. LEASE LIABILITY

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

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
At 1 January 2021	422,267	488,659
Additions	360,306	44,872
Leases terminated	(28,674)	(14,543)
Interest on lease liabilities	56,343	47,332
Payment of lease liabilities	(215,981)	(144,053)
At 31 December 2021	594,261	422,267



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. LEASE LIABILITY(continued)

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

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Year 1	384,190	156,436
Year 2	224,479	166,203
Year 3	127,651	165,077
Year 4	30,826	133,866
Year 5	6,309	56,327
Onwards	1,085	30,069
	774,540	707,978
Unearned interest	(180,279)	(285,711)
	594,261	422,267

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

28. SHARE CAPITAL AND PREMIUM

a)Share capital

	GROUP		BANK	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Authorised:				
65,999,600 (2020: 48,000,000) ordinary shares of Shs 10 each	659,996	600,000	659,996	600,000

Issued and fully paid:

65,999,600 (2020: 48,000,000) ordinary shares of Shs 10 each	659,996	480,000	659,996	480,000
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The Group received a total of Shs 1.45 billion funding from Old Mutual Holding Limited which was split into Shs 900 million subordinated debt and Shs 550 million equity on 31 March 2021. On 31 December 2021 part of the subordinated debt amounting to Shs 500 million was converted to equity. The total capital injection during the year amounted to Shs 1,050,000,000.

b)Share premium

The change in share premium during the year from Shs 2,899,759,000 at the beginning of the year to Shs 3,769,763,000 at the end of the year, is attributable to new shares issued at a premium.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. NOTES TO THE STATEMENT OF CASH FLOWS

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

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Loss before tax	(489,796)	(446,417)	(521,656)	(475,990)
Adjustment for:				
Depreciation on property and equipment	137,002	130,957	136,949	130,890
Depreciation on right of use assets	200,328	143,660	200,328	143,660
Amortisation of intangible assets	82,009	91,216	79,551	90,665
Write off of ATM Machines	-	25,050	-	25,050
Write off of intangible assets	-	1,988	-	1,988
Loss/(gain) on disposal of a property and equipment	176	(857)	176	(857)
Share of associate company's profit	(3,174)	(3,883)	(3,174)	(3,883)
Interest on lease liability	56,343	47,332	56,343	47,332
Gain on termination of leases	(7,978)	(1,138)	(7,978)	(1,138)
	(25,090)	(12,092)	(59,461)	(42,283)
Working capital changes:				
Increase in loans to customers	2,183,447	1,673,409	2,183,447	1,673,409
Net movement in related party balances	7,759	(8,714)	1,107	(4,553)
Increase in other assets	(149,971)	(231,929)	(140,830)	(229,023)
Decrease in cash collaterals held	(28,037)	(13,030)	(28,037)	(13,030)
(Decrease)/increase in customer deposits	(1,389,455)	2,695,676	(1,379,011)	2,699,555
Increase in other liabilities	418,294	103,013	411,870	114,717
Decrease/(increase) in cash reserve ratio-CBK	360,775	(400,799)	360,775	(400,799)
	1,377,722	3,805,534	1,349,860	3,797,993



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

b) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
Local currency cash	388,285	398,943	388,285	398,943
Balances due from banks and financial institutions	354,008	226,770	354,008	226,770
Short term deposits with banks (note 13)	1,238,219	1,452,042	1,238,219	1,452,042
Treasury bills	1,522,146	-	1,522,146	-
	3,502,658	2,077,755	3,502,658	2,077,755

c) MOVEMENT IN BORROWINGS

	GROUP AND BANK		GROUP AND BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
At 1 January	2,017,292	4,366,275	2,017,292	4,366,275
Received in the year	525,000	750,000	525,000	750,000
Paid in the year	(1,850,153)	(3,098,983)	(1,850,153)	(3,098,983)
At 31 December	692,139	2,017,292	692,139	2,017,292

30. RELATED PARTY TRANSACTIONS

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

Old Mutual Holdings Limited is the immediate parent of Faulu Microfinance Bank Limited. Ultimate parent is Old Mutual Limited. UAP Life Assurance Limited Old Mutual Investment Group, UAP Insurance Company Limited are fellow subsidiaries the Bank whereas Old Mutual Life Assurance Limited South Africa is the subsidiary of the ultimate parent company.

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

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

(a) Due from related parties

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
UAP Holdings Limited	-	-	-	-
Faulu MFB Insurance Agency Limited	-	-	4,980	-
UAP Life Assurance Limited-Kenya	27	192	27	192
Old Mutual Investment Group	27	192	27	192
UAP Insurance Company Limited	203	193	203	193
Old Mutual Life Assurance	260	-	260	-
	517	577	5,497	577

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. RELATED PARTY TRANSACTIONS (Continued)

(b) Due to related parties

	GROUP		BANK	
	2021 Shs '000	2020 Shs '000	2021 Shs '000	2020 Shs '000
UAP Holdings Limited	(11,921)	(4,182)	(11,921)	(4,182)
Faulu MFB Insurance Agency Limited		-		(1,672)
Old Mutual Life Assurance Limited		(40)		(40)
Old Mutual Life Assurance Limited-South Africa	(25,881)	(25,881)	(25,881)	(25,881)
	(37,802)	(30,103)	(37,802)	(31,775)

Deposits are made in the Group by directors and companies associated to directors. Advances to customers at 31 December 2021 include advances and loans to Directors and staff as indicated below:

(c) Loans to customers

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
- Directors	19,615	31,231
- Staff	309,184	467,529
	328,799	498,760

(d) Interest income

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
- Directors	1,228	1,322
- Staff	17,832	17,429
	19,060	18,751

(e) Customer deposits:

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
- Directors	104,664	96,756
- Staff	40,551	59,169
	145,215	155,925

(f) Interest expense

	GROUP AND BANK	
	2021 Shs '000	2020 Shs '000
- Directors	10,295	10,753
- Staff	1,848	1,218
	12,143	11,971



» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 RELATED PARTY TRANSACTIONS (Continued)

(g) Related party transactions

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Group recharges from Old Mutual Holdings Limited	126,175	43,177

(h) Borrowings from related parties

Borrowings from Old Mutual Holding Limited is disclosed in note 25 (c). Total interest expense paid amounted to Shs 97,653,000 (2020: nil).

Key management compensation

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

	GROUP AND BANK	
	2021	2020
	Shs '000	Shs '000
Salaries and wages	311,980	208,727
Directors' remuneration		
Fees for services as directors	14,562	12,270

31. CONTINGENT LIABILITIES

The Group is a defendant in various legal suits with an estimated liability of Shs 57.4 million (2020 - Shs 97.6 million). In the opinion of the Directors, after obtaining appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

Suit has been filed by the Chargor against the Plaintiff. He alleges that he did not guarantee the present facility, neither did he surrender his title to the Group to secure the loan. He contends that the signature on the charge instrument is not his. His wife equally contends that the signature on the spousal consent is not hers. The amount claimed is Shs.31million. No provision has been made in the financial statement in respect of this claim.

Suit has been filed by a customer against the Group. The claim is for general damages for financial defamation and CRB listing amounting to Shs.15 million. She claims special damages for breach of the Group's fiduciary duty of care, and loss of business opportunities owing to her inability to access financial accommodation in other financial institutions.

Suit has been filed by the Customer against the Group for a claim of Shs 3.5 million fraudulently registering a charge instrument without the Chargor's consent. In her pleadings, she detailed how the 3rd party Chargor, his grandson deceived him into executing the charge instruments by misrepresenting the purpose of the said charge. Judgment was rendered against the defendants (to include the Group) and titles released to plaintiff. No provision has been made in the financial statement in respect of this claim.

Suit has been filed against the Group seeking a declaration that the Group has breached his right as a chargor for failing to release the discharge of charge instrument together with his title deed upon completion of the loan. He is claiming damages for lost business, breach of the contractual agreement and general damages for negligence on the part of the Group amounting to Shs.2 million. The claim is unlikely to succeed as the Customer has not annexed any proof of loss of business. No provision has been made in the financial statement in respect of this claim.

Suit has been filed against the Group alleging that the Group was in contempt of court when it proceeded to realize a security with injunctive orders in place. No provision has been made in the financial statement in respect of this claim as the claim is unlikely to succeed.

There are others various customer related suits with an aggregated amount of Shs 5.9 million.

» NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32. CAPITAL COMMITMENTS

The Group had commitments worth Shs 65 million against the information technology server upgrade project. (2020: Shs 230 million).

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%

34. 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.

35. ULTIMATE AND IMMEDIATE HOLDING COMPANY

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

36. INCORPORATION

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

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. GENERAL INFORMATION

Faulu Microfinance Bank Limited (the "Bank") and its subsidiary are companies domiciled and operating in Kenya. 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.







THE FUTURE IS DIGITAL

2021 Annual report

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