EQUITY GROUP HOLDINGS PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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Bank of Tanzania
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COMPANY SECRETARY

Lydia Ndirangu
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The directors submit their report together with the audited financial statements of Equity Group Holdings Plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activities of Equity Group Holdings Plc are:

a) To carry on the business of a non-operating holding company as defined under the Banking Act;
b) To employ the funds of the Group in the development and expansion of the business of the Group and all or any of its subsidiaries; and
c) To co-ordinate the administration of and to provide advisory, administrative, management and other services in connection with the activities of its subsidiaries.

The Group includes six banking subsidiaries providing an extensive menu of financial services in the countries it has operations in and seven non-banking subsidiaries engaged in providing investment banking and stock-broking,insurance, insurance agency, custodial, consultancy and telecommunication services. The subsidiaries are listed in note 17(a).

RESULTS AND RECOMMENDED DIVIDEND

Profit for the year of Shs 40,072 million (2020: Shs 20,100 million) has been added to retained earnings. The directors recommend payment of a dividend of Shs 3 per share (2020: Nil).

BUSINESS REVIEW

Against a background of COVID-19 pandemic and its consequent disruption of global economic activities with the resultant social disruptions, Equity Group Holdings has demonstrated a resilient, versatile business model, leadership agility, innovation and diversification capability and strength of strategy to report an 134% growth in profit before tax, a 29% growth in total assets and a 22% growth in net operating income. Resilience in execution of an offensive and defensive strategy saw regional subsidiaries maintain their Group contribution to deposits at 44% and revenue growth to 37% up from 33%

The offensive growth strategy has seen a 23% growth in net loans and advances and a 81% growth in investment in Government securities resulting into a 27% growth in interest income. The growth in earning assets have been funded by a 32% growth in long-term funds of Kshs.128.3 billion up from Kshs.97.1 billion and a 29% growth in customer deposits of Kshs.959.0 billion up from Kshs.740.1 billion driving total assets growth of 29% to Kshs.1.305 trillion up from Kshs.1.015 trillion.

The Group is increasingly shifting from its legacy brick and mortar model of fixed cost structure of branches and ATMs to variable cost, self-service model of client's own electronic devices or third-party infrastructure. Third-party channels reported an exponential growth of customer activity, contributing over 86% of transaction volumes. Eazzy Banking App grew by 57% to 779.8 million transactions from 495.9 million YoY and a value of Shs 636.9 billion from Shs 299.9 billion year on year (YoY). Eazzy Biz, which is a cash management solution for SMEs had a rapid adoption in the market that resulted in a transactions growth of 37% YoY with a transaction value of Shs 1,496.3 billion from Shs 713.8 billion. The strategy of re-inventing the branches as relationship and wealth creation centers for our SMEs, corporates and high net worth individuals saw transaction volumes increase marginally to 19.8 million from 17.7 million mainly as a result of recovery from COVID-19. The transaction value increased to Shs 2,564.5 billion to Shs 1,969.1 billion signalling high net worth transactions at the branches.

BUSINESS REVIEW (continued)

Equitel's transaction value grew by 100% to Shs 1,870.0 billion up from Shs 934.2 billion and the transaction volumes increased to 328.8 million from 274.0 million. The agency network which has now grown to reach over 50,000 agents saw the transaction value grow by 61% to Shs 1,494.2 billion from Shs 929.3 billion and transactions volume grew 7% from 75.7 million to 81.3 million. Diaspora remittances grew by 37% to Shs 383.5 billion from Shs 279.4 billion due to increased strategic partnership with payment partners including PayPal, Equity Direct, Western Union, MoneyGram, Wave and Swift. Income from treasury operations increased by 34% to Shs 41.3 billion from Shs 30.7 billion driven by an increase in investment securities portfolio to Shs 394.1 billion from Shs 217.4 billion. Interest income on investment securities contributed to 71% of our total treasury income.

The Group has continued to closely manage the COVID-19 accommodated loans of Khs.171 billion. Loans worth Kshs.126 billion have resumed repayment with Kshs.45 billion constituting 7% of the total outstanding loan book remaining under Covid-19 moratorium.

On the corporate social arm, Equity Group Foundation scaled its operations to reach a spend US$513 million in social investment programs, reaching 37,009 secondary school Wings to Fly scholarships, 17,040 University scholarship under the Equity Leadership Program, 3,262 TVET scholarships and 688 Global university scholarships, while 51 Equity Afia clinics are now operational with 701,760 patients visits. To support global initiatives to combat climate change, we have planted 7.5 million trees and financed and distributed 329,421 clean energy products.

To help build back better and support the world's focus on purpose, Equity Group Foundation scaled its financial inclusion programs reaching 2.3 million women and youth with an 11-week financial training programs. 2.28 million small scale farmers were supported to convert into agri-businesses, 317,000 MSMEs were trained in entrepreneurship and accessed them Ksh.135.8 billion in credit facilities while offering the Group infrastructure to support disbursement of Kshs.95.3 billion in cash transfers to over 3.5 million households.

The Group's business model continues to be validated by rating agencies and recognitions locally, regionally, and globally. Moody's gave the Group a national rating of B2 and global rating of Aaa.ke/KE-1 with a negative outlook same as the sovereign rating of the Kenyan government. The Global Credit Rating (GCR) maintained Equity's investment grade AA- on long term and A1+ short term with a negative outlook. The Bank was recognised as position 5 in the world in the world's strongest banking brands 2022, by Brand Finance. It received a Brand Strength Rating (BSR) of AAA+.

DIRECTORS

The directors who served during the year and to the date of this report were:

Prof. Isaac Macharia	Chairman
Mrs. Evelyn Rutagwenda**	Vice Chairperson
Dr. James Mwangi*	(Group Chief Executive Officer & Managing Director)
Dr. Helen Gichohi	
Mr. Vijay Gidoomal	
Mrs. Mary Wamae*	
Dr. Edward Odundo	
Mr. Christopher Newson***	Retired on 24.06.2021
Mr. Jonas Mushosho****	Appointed on 28.07.2021

* Executive Directors
** Rwandese
*** British/South African
**** Zimbabwean

DIRECTORS (continued)

Article 100 of the Memorandum and Articles of Association of the Company provides for retirement of directors by rotation. Clause 2.5 of the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 provides for retirement of directors on attaining the age of seventy years.

a) To approve the appointment of Prof. Isaac Macharia, who in accordance with Article 100 of the Company's Articles of Association, retires from office by rotation and being eligible, offers himself for re-election;

b) To approve the appointment of Dr. Edward Odundo, who in accordance with Article 100 of the Company's Articles of Association, retires from office by rotation and being eligible, offers himself for re-election; and

c) To approve the appointment of Mr. Jonas Mushosho, who having been appointed to the Board on 28.07.2021, retires from office by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers herself for re-election.

STATEMENT AS TO DISCLOSURE TO THE GROUP'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and

b) the director has taken all the steps that the director ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 721 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity, and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the Board

Kirangu

SECRETARY

21 March 2022

Information not subject to audit

The Board reviews and recommends the remuneration structure of Directors annually, subject to Shareholder's approval. Directors' remuneration is linked to performance and is competitively structured to attract and retain the best talent to effectively develop the Group's business.

Executive Directors

The Executive Directors remuneration package comprises core fixed elements (base salary, pension and other benefits). Executive Directors are eligible to participate in the Group's bonus scheme which is anchored on achievement of key business performance indicators, but are not entitled to earn fees or other allowances.

Non-Executive Directors

Non-Executive Directors are appointed for a renewable term of 3 years, subject to regulatory approval and shareholder ratification. They are obligated to act reasonably, in good faith and in the best interests of the Group and its shareholders. Non-Executive Directors are vested with the following key responsibilities:

a) to constructively challenge and contribute to the development of strategy and extend the business of the Group;
b) to monitor the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance; and
c) to ensure that the financial information is accurate, and that financial controls and systems of risk management are robust and defensible.

Non-Executive Directors are entitled to fees for attending Board and Committee meetings, as well as an out of station per diem for attending to Group's business outside their usual place of business. Non-Executive Directors do not earn a salary and they do not participate in the Group's bonus schemes nor the Group's pension plan.

Upon retirement or termination, Non-Executive Directors are entitled to any accrued but unpaid Director's fees or reasonably incurred expenses but not to any other compensation.

Insurance

The Group provides Directors' and Officers' Liability Insurance for all Directors of the Group during the entire duration of their tenure.

Share Options

There are currently no share options issued by the Group to the Executive and the Non-Executive Directors. Particulars of compensation of Directors and key personnel are disclosed in Note 29.

Audited information

The following table shows a single figure remuneration for the Chairman, Non-Executive Directors (NEDs) and Executive Directors in respect of qualifying services for the year ended 31 December 2021 together with the comparative figures for 2020. The aggregate Directors' emoluments are shown on Note 29 (e).

	Salary	Fees	Pension	Bonus	Other allowances	Gratuity[1]	Leave pay	Estimated value for non-cash benefits	Total
Year ended 31 December 2021	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Dr. James Mwangi*	78,000	-	2	-	5,000	42,148	12,804	5,070	143,024
Mrs. Mary Wamae*	45,080	-	4,089	-	-	-	12	255	49,436
Prof. Isaac Macharia	-	10,282	-	-	-	-	-	-	10,282
Mrs. Evelyn Rutagwenda	-	9,856	-	-	-	-	-	-	9,856
Dr. Helen Gichohi	-	4,165	-	-	-	-	-	-	4,165
Mr. Vijay Gidoomal	-	3,946	-	-	-	-	-	-	3,946
Dr. Edward Odundo	-	4,603	-	-	-	-	-	-	4,603
Mr. Christopher Newson	-	660	-	-	-	-	-	-	660
Mr. Jonas Mushosho	-	2,003	-	-	-	-	-	-	2,003
	123,080	35,515	4,091	-	5000	42,148	12,816	5,325	227,975

*Executive Directors: Executive Directors are not entitled to receive fees or allowances for attending meetings of the Company's Board and those of any subsidiary company of which they may be a director.

[1] Gratuity paid in lieu of pension contribution over the past 2 years of service

Audited information (continued)

Year ended 31 December 2020	Salary Shs' 000	Fees Shs' 000	Pension Shs' 000	Bonus Shs' 000	Other allowances Shs' 000	Gratuity (2) Shs' 000	Leave pay Shs' 000	Estimated value for non-cash benefits Shs' 000	Total Shs' 000
Dr. James Mwangi*	56,734	-	2	4,728	3,744	194,596	13,947	4,780	278,531
Mrs. Mary Wamae*	39,252	-	2,815	3,270	-	-	-	215	45,552
Mr. Deepak Malik	-	1,267	-	-	-	-	-	-	1,267
Mr. David Ansell	-	3,731	-	-	-	-	-	-	3,731
Mrs. Evelyn Rutagwenda	-	3,863	-	-	-	-	-	-	3,863
Mr. Vijay Gidoomal	-	2,990	-	-	-	-	-	-	2,990
Prof. Isaac Macharia	-	5,563	-	-	-	-	-	-	5,563
Dr. Helen Gichohi	-	2,990	-	-	-	-	-	-	2,990
Dr. Edward Odundo	-	3,519	-	-	-	-	-	-	3,519
Mr. Christopher Newson	-	983	-	-	-	-	-	-	983
	95,986	24,906	2,817	7,998	3,744	194,596	13,947	4,995	348,989

*Executive Directors: Executive Directors are not entitled to receive fees or allowances for attending meetings of the Company's Board and those of any subsidiary company of which they may be a director.
(2) Gratuity paid in lieu of pension contribution over the past 10 years of service

On behalf of the Board

Signature

Mary Wamae

Director

The 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 of the Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and the Company; disclose with reasonable accuracy at any time the financial position of the Group and the Company; and that enables them to prepare financial statements of the Group and of the Company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i) designing, implementing and maintaining such internal controls 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 applying them consistently; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having assessed the Group's and Company'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's and Company'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 21 March 2022 and signed on its behalf by:

Signature

Dr. James Mwangi
Director

Signature

Prof. Isaac Macharia
Director

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Independent auditor's report
To the shareholders of Equity Group Holdings Plc

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Equity Group Holdings Plc (the "Company") and its subsidiaries (together, the "Group") set out on pages 15 to 140, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2021 and the Company statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of Equity Group Holdings Plc give a true and fair view of the financial position of the Group and of the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (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 the IESBA Code.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances at amortised cost	
Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.	We obtained the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9.

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Independent auditor's report
To the shareholders of Equity Group Holdings Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
The policies for estimating ECL are explained in notes 2 (i), 3 and 4 (b) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of *Significant Increase in Credit Risk ("SICR")* and *Default* requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; • the relevance of forward-looking information used in the models; • for certain individually assessed loans and advances, judgement is exercised in the consideration of quantitative and qualitative factors, and the mapping of these loans to external ratings. Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	We tested how the banking subsidiaries extract 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model. In addition, we assessed the qualitative information applied by the Group in determining the appropriate staging. We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis. We reviewed the approach used to estimate LGD at each point during the life of the exposure including time to realisation and the recovery rate calculations. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports. We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures. For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios to reflect the impact of current developments. For the loans whose PDs are derived from external ratings, we discussed with management and reviewed the appropriateness of their assessment and mapping to external ratings. We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

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Independent auditor's report
To the shareholders of Equity Group Holdings Plc (continued)

Other information

The other information comprises Group and Company information, Directors' report, Directors' remuneration report and Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Integrated Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 we have received 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.

When we read the rest of the other information in the Integrated Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Company'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 or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

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Independent auditor's report
To the shareholders of Equity Group Holdings Plc (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 and Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Independent auditor's report
To the shareholders of Equity Group Holdings Plc (continued)

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion, the information given in the Directors' report on pages 3 to 5 is consistent with the financial statements.

Directors' remuneration report

In our opinion, the auditable part of the directors' remuneration report on pages 6 to 8 has been properly prepared in accordance with the Companies Act, 2015.

Richard Njoroge

FCPA Richard Njoroge, Practising certificate No. P/1244
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

22 **March 2022**

Consolidated statement of profit or loss

	Notes	2021 Shs' millions	2020 Shs' millions
Interest income	6	102,065	80,386
Interest expense	6	(25,534)	(18,616)
Net interest income		76,531	61,770
Fee and commission income	7 (a)	21,625	16,051
Fee and commission expense	7 (b)	(7,039)	(5,950)
Net fee and commission income		14,586	10,101
Net foreign exchange income	8	8,187	6,210
Other operating income	9	5,605	8,860
Fair value loss on loan notes at FVTPL	20 (d)	(128)	(3,239)
Credit impairment losses	11	(4,783)	(22,626)
Gain from bargain purchase	15 (c)	-	1,177
		8,881	(9,618)
Net operating income		99,998	62,253
Employee benefits	12	(19,108)	(15,542)
Depreciation and amortisation	10	(7,228)	(6,601)
Other operating expenses	16	(22,286)	(17,006)
Gain / (loss) on net monetary position	36	505	(934)
Operating expenses		48,117	(40,083)
Profit before income tax		51,881	22,170
Income tax expense	18	(11,809)	(2,070)
Profit for the year		40,072	20,100
Profit attributable to:			
Owners of the parent		39,175	19,790
Non-controlling interest		897	310
		40,072	20,100
Earnings per share (basic and diluted) (Shs)	30	10.38	5.24

Consolidated statement of other comprehensive income

	Notes	2021 Shs' millions	2020 Shs' millions
Profit for the year		40,072	20,100
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Fair value gains on investments in financial instruments measured at FVOCI	21	(10,126)	4,233
Deferred income tax	23	3,028	(1,269)
		(7,098)	2,964
Exchange differences on translation of foreign operations		4,173	221
Items that may not be reclassified to profit or loss:			
Re-measurement of defined benefit obligation	27	1,124	(636)
Deferred income tax	23	(337)	191
		787	(445)
		(2,138)	2,740
Total comprehensive income for the year, net of tax		37,934	22,840
Total comprehensive income attributable to:			
Owners of the parent		37,237	22,530
Non-controlling interest		697	310
		37,934	22,840

Company statement of profit or loss and other comprehensive income

	Notes	2021 Shs' millions	2020 Shs' millions
Interest income	6	603	423
Interest expense	6	(570)	(13)
Net Interest income		33	410
Dividend income	29 (h)	8,703	607
Other operating income	9	(95)	10
		8,608	617
Operating income		8,641	1,027
Credit impairment credit	11	1	-
Employee benefits	12	(10)	(53)
Depreciation and amortisation	14 (a)	(2)	(2)
Other operating expenses	16	(191)	(757)
Operating expenses		(202)	(812)
Profit before income tax		8,439	215
Income tax expense	18	(138)	(56)
Profit for the year		8,301	159
Other comprehensive income for the year		-	-
Total comprehensive income for the year		8,301	159

Consolidated statement of financial position

	Notes	2021 Shs' millions	2020 Shs' millions
Assets			
Cash, deposits, and balances due from financial institutions	19 (a)	242,782	247,093
Derivative financial assets	34	313	438
Investment securities	21	394,101	217,408
Due from related parties	29 (f)	160	-
Current income tax	18	562	279
Loans and advances to customers	20	587,775	477,847
Other assets	22	22,607	19,660
Investment properties	14 (d)	5,581	5,576
Property and equipment	14 (a)	15,200	15,904
Right-of-use assets	14 (b)	8,090	6,090
Intangible assets	15	12,803	11,591
Deferred income tax	23	14,940	13,207
Total assets		1,304,914	1,015,093
Liabilities			
Due to related parties	29 (g)	-	114
Deposits from customers	24	958,977	740,801
Borrowed funds	26	128,340	97,148
Other liabilities	25	29,341	26,316
Employee benefit obligations	27	1,269	2,405
Lease liabilities	14 (c)	8,900	6,688
Current income tax	18	925	1,641
Deferred income tax	23	971	1,339
Total liabilities		1,128,723	876,452
Equity			
Share capital	28 (a)	1,887	1,887
Share premium	28 (b)	15,325	15,325
Retained earnings		158,103	118,767
FVOCI reserve	28 (c)	(1,243)	5,478
Statutory loan loss reserve	28 (d)	171	577
Foreign currency translation reserve	28 (f)	(5,127)	(9,300)
Other reserves	28 (e)	52	(558)
Equity attributable to owners of the Company		169,168	132,176
Non-controlling interests		7,023	6,465
Total equity		176,191	138,641
Total equity and liabilities		1,304,914	1,015,093

The financial statements on pages 15 to 140 were approved for issue by the Board of directors on 21 March 2022 and signed on its behalf by:

Signature
Dr. James Mwangi
Director

Signature
Prof. Isaac Macharia
Director

Company statement of financial position

	Notes	2021 Shs' millions	2020 Shs' millions
Assets			
Cash, deposits and balances due from financial institutions	19	11,103	8,818
Due from related parties	29(f)	203	39
Other assets	22	7,105	513
Current income tax	18	-	54
Property and equipment	14(a)	10	12
Investments in subsidiary companies	17(a)	81,235	80,452
Deferred income tax	23	113	90
Total assets		99,769	89,978
Liabilities			
Due to related parties	29(g)	1,345	442
Borrowed funds	26	11,461	10,938
Current income tax	18	62	-
Other liabilities	25	2	-
Total liabilities		12,870	11,380
Equity			
Share capital	28(a)	1,887	1,887
Share premium	28(b)	15,325	15,325
Retained earnings		69,687	61,386
Total equity		86,899	78,598
Total equity and liabilities		99,769	89,978

The financial statements on pages 15 to 140 were approved for issue by the Board of directors on 21 March 2022 and signed on its behalf by:

Signature

Dr. James Mwangi
Director

Signature

Prof. Isaac Macharia
Director

Consolidated statement of changes in equity

		Attributable to owners of the Parent								Non-controlling interests	Total equity
	Notes	Share capital	Share premium	Retained earnings	Statutory loan loss reserve	FVOCI Reserve	Foreign currency translation reserve	Other Reserves	Total		
Year ended 31 December 2021		Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions
At start of year		1,887	15,325	118,767	577	5,478	(9,300)	(558)	132,176	6,465	138,641
Equity transactions with non-controlling interests	17	-	-	(245)	-	-	-	-	(245)	(139)	(384)
		1,887	15,325	118,522	577	5,478	(9,300)	(558)	131,931	6,326	138,257
Total comprehensive income:											
Profit for the year		-	-	39,175	-	-	-	-	39,175	897	40,072
Other comprehensive income		-	-	-	-	(6,721)	4,173	610	(1,938)	(200)	(2,138)
		-	-	39,175	-	(6,721)	4,173	610	37,237	697	37,934
Loan loss reserve transfers	28(d)	-	-	406	(406)	-	-	-	-	-	-
At end of year		1,887	15,325	158,103	171	(1,243)	(5,127)	52	169,168	7,023	176,191

Consolidated statement of changes in equity (continued)

	Notes	Attributable to owners of the Parent								Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Statutory loan loss reserve	FVOCI Reserve	Foreign currency translation reserve	Other Reserves	Total		
Year ended 31 December 2020		Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions
At start of year		1,887	16,063	99,150	739	2,514	(9,521)	(113)	110,719	1,058	111,777
Non-controlling interests from business acquisition	15 (c)	-	-	-	-	-	-	-	-	5,759	5,759
Other adjustment	28 (b)	-	(738)	-	-	-	-	-	(738)	-	(738)
Equity transactions with non-controlling interests	17	-	-	(335)	-	-	-	-	(335)	(662)	(997)
		1,887	15,325	98,815	739	2,514	(9,521)	(113)	109,646	6,155	115,801
Total comprehensive income:											
Profit for the year		-	-	19,790	-	-	-	-	19,790	310	20,100
Other comprehensive income		-	-	-	-	2,964	221	(445)	2,740	-	2,740
		-	-	19,790	-	2,964	221	(445)	22,530	310	22,840
Loan loss reserve transfers	28(d)	-	-	162	(162)	-	-		-	-	-
At end of year		1,887	15,325	118,767	577	5,478	(9,300)	(558)	132,176	6,465	138,641

Company statement of changes in equity

	Note	Share capital Shs' millions	Share premium Shs' millions	Retained earnings Shs' millions	Total equity Shs' millions
Year ended 31 December 2021					
At start of year		1,887	15,325	61,386	78,598
Total comprehensive income:					
Profit for the year		-	-	8,301	8,301
At end of year		1,887	15,325	69,687	86,899
Year ended 31 December 2020					
At start of year		1,887	16,063	61,227	79,177
Other adjustment	28 (b)	-	(738)	-	(738)
Total comprehensive income:					
Profit for the year		-	-	159	159
At end of year		1,887	15,325	61,386	78,598

Consolidated statement of cash flows	Notes	2021 Shs' millions	2020 Shs' millions
OPERATING ACTIVITIES			
Profit before income tax		51,881	22,170
Adjustments for:			
Depreciation and amortisation	10	7,228	6,601
Loss on disposal of property and equipment		38	9
Loss on disposal of right-of-use assets		215	-
Credit impairment charges	11	5,716	23,393
Fair value loss	20(d)	128	3,239
Interest expense on term borrowings	6	4,851	4,015
Interest expense on lease liabilities	6	626	768
Defined benefit plan costs	27	148	-
(Gain) / Loss on fair valuation of investment securities	21	(66)	129
Revaluation of derivatives		125	34
Effect of foreign exchange differences		62	98
Operating profit before changes in operating assets and liabilities		70,952	60456
Movements in:			
Investment securities at FVTPL	21	(2,383)	(92)
Loans and advances		(115,644)	(90,057)
Other assets		(2,947)	(2,440)
Deposits from customers		218,176	145,363
Related party balances		(274)	(95)
Other liabilities		3,025	2,681
Employee benefit obligations	27	(1,450)	-
Movement in restricted cash balances	19	(32,236)	(4,527)
Cash generated from operations		137,219	111,289
Income taxes paid	18	(12,195)	(10,393)
Net cash flows from operating activities		125,024	100,896
INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired	15(c)	-	66,928
Purchase of property and equipment	14(a)	(1,770)	(2,240)
Proceeds from sale of property and equipment		7	57
Purchase of investment properties	14(d)	(39)	-
Purchase of intangible assets	15(a)	(3,270)	(1,752)
Purchase of investment securities (Amortised cost & FVOCI)	21	(376,066)	(171,634)
Proceeds from sale / maturity of investment securities (Amortised cost & FVOCI)	21	191,752	131,732
Net cash flows from investing activities		(189,386)	23,091
FINANCING ACTIVITIES			
Reduction in share premium		-	(738)
Proceeds from long-term borrowings	26	94,852	65,159
Repayment of long-term borrowings	26	(60,443)	(26,016)
Interest paid on term borrowings	26	(4,176)	(4,101)
Interest expense on leases	14(c)	(554)	(754)
Principal elements of lease payments	14(c)	(1,864)	(1,405)
Net cash flows from financing activities		27,815	32,145
Net increase in cash and cash equivalents		(36,547)	156,132
Cash and cash equivalents at start of year		226,912	70,780
Cash and cash equivalents at end of year	19 (a)	190,365	226,912

Company statement of cash flows

	Notes	2021 Shs' millions	2020 Shs' millions
OPERATING ACTIVITIES			
Profit before income tax		8,439	215
Adjustments for:			
Depreciation on property and equipment	14 (a)	2	2
Interest expense on term borrowings	6	570	13
Dividends received		(1,703)	-
Other adjustment	28(b)	-	(738)
Foreign exchange differences on borrowings		389	-
Operating loss before changes in operating assets and liabilities		7,697	(508)
Other assets		(6,592)	(354)
Related party balances		739	(155)
Other liabilities		2	(38)
Cash generated (used in) / from operations		1,846	(1,055)
Income taxes paid	18	(45)	(78)
Net cash flows from operating activities		1,801	(1,133)
INVESTING ACTIVITIES			
Investment in subsidiaries		(783)	(13,666)
Purchase of property and equipment	14 (a)	-	(2)
Dividends received		1,703	-
Net cash flows from investing activities		920	(13,668)
FINANCING ACTIVITIES			
Proceeds from borrowed funds	26	-	10,925
Interest paid on borrowed funds	26	(436)	-
Net cash flows from financing activities		(436)	10,925
Net (decrease) / increase in cash and cash equivalents		2,285	(3,876)
Cash and cash equivalents at start of year		8,818	12,694
Cash and cash equivalents at end of year	19	11,103	8,818

Notes

1 Corporate information

Equity Group Holdings Plc (the "Company") is incorporated under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The Company is licensed under the Kenyan Banking Act (Chapter 488). The Company has subsidiaries in Kenya, Uganda, South Sudan, Rwanda, Tanzania and Democratic Republic of Congo. It also has a representative office in Ethiopia. Its shares are listed on the Nairobi Securities Exchange, Uganda Securities Exchange and Rwanda Securities Exchange.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for fair value through other comprehensive income investments, derivatives and loan notes at fair value through profit or loss which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group and Company

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2021:

Covid-19-related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat 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 concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021.

However, the IASB subsequently extended this date to 30 June 2022. If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Group and Company (continued)

Covid-19-related Rent Concessions – Amendments to IFRS 16 (continued)

If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so. This amendment has not had a significant impact on the financial statements.

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

The LIBOR transition risk spans the economic risk of client portfolios, operational risk, funding risk, conduct risk, and legal risk. Given the importance of LIBOR across the financial services industry, the LIBOR transition poses significant transition risk if not addressed in a timely and comprehensive manner.

The Group has put in place the following strategic planning and risk mitigation initiatives.

(i) A LIBOR transition program with clear terms of reference and executive committee oversight
(ii) Business impact analysis done, and all contracts identified and the exposure quantified.
(iii) Identification of risks and timely implementation of risk mitigation. These risks included operational risks and legal risks. Mitigation measures in place include:

  - proposed timely communication with clients
  - revision of all LIBOR linked contracts and including legal advice
  - training of all key stakeholders within the LIBOR ecosystem

The above changes have not had a significant impact on the Group's financial statements.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Group and Company (continued)

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)

The following table contains details of all of the financial instruments that the Group holds as at 31 December 2021 which reference USD LIBOR:

	Carrying Amount	
	Assets	Liabilities
	Shs'millions	Shs'millions
Cash, deposits, and balances due from financial institutions	49,379	-
Loans and advances to customers	139,854	-
Borrowed funds	-	78,996
	189,233	78,811
Off balance sheet commitments	8,207	8,207

(ii) Standards, interpretations and amendments issued but not effective and have not been early adopted by the Group

Title	Key requirements	Effective date
IFRS 17 *Insurance Contracts*	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	1 January 2023 (deferred from 1 January 2021)
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 *Business Combinations* to update the references to the *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	The following improvements were finalised in May 2020: • IFRS 9 *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.	1 January 2022

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) Standards, interpretations and amendments issued but not effective and have not been early adopted by the Group (continued)

Title	Key requirements	Effective date
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify 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 the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2023 (deferred from 1 January 2022)
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	The following improvements were finalised in May 2020: • IFRS 9 *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.	1 January 2022
Definition of Accounting Estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) Standards, interpretations and amendments issued but not effective and have not been early adopted by the Group (continued)

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. ** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.	n/a **
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.	1 January 2023

Management is in the process of assessing the impact of the above standards on the Group's financial statements. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes (continued)

2 Significant accounting policies (continued)

(b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over fair value of the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

In the Company's financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses.

If the purchase consideration paid is less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total face value of shares issued) is adjusted against the capital reserve. Any cost directly attributable to the combination is recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

(c) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Kenya Shillings, which is the Company's Functional and Presentation currency.

Notes (continued)

2 Significant accounting policies (continued)

(c) Foreign currency translation (continued)

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the group entities at their respective Functional Currency prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the Functional Currency at the spot rate of exchange at the reporting date. All differences arising from non-trading activities are taken to other operating income in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of recognition.

(ii) Group companies

On consolidation, the assets and liabilities in foreign operations whose functional currencies are not the currency of a hyperinflationary currency are translated into Kenya Shillings at the spot rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at average rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(iii) Hyperinflationary economies

The Group considers an economy to be hyperinflationary if the cumulative inflation rate over three years is approaching, or exceeds, 100%. The financial statements of a subsidiary whose functional currency is the currency of a hyperinflationary economy are restated from historical cost into the measuring unit current at the end of the reporting period by applying a general price index.

The corresponding figures for the previous period and any information in respect of earlier periods is also stated in terms of the measuring unit current at the end of the reporting period. The restatement is based on conversion factors derived from Consumer Price Indices (CPI) (refer to note 36).

For the purpose of consolidation, the results and financial position of a subsidiary whose functional currency is the currency of a hyperinflationary economy are translated into Kenya Shillings at the spot rate of exchange prevailing at the reporting date. However, the comparative amounts are those that were presented in the prior year financial statements.

(d) Recognition of interest income, dividend and interest expense

Revenue is recognised as control is passed, either over time or at a point in time. The Group recognises revenue over time after each performance obligation is fulfilled.

Interest income and expense are recognised in profit or loss on the Effective Interest Rate (EIR) method. Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities measured at amortised cost and debt instruments classified as FVOCI, calculated using the effective interest rate (EIR). The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
- Dividend income is recognised when the Company's right to receive that payment is established.

Notes (continued)

2 Significant accounting policies (continued)

(e) Fee and commission income and expense

Fees and commissions charged for services provided or received by the Group are recognised as the services are provided or received, for example on completion of an underlying transaction.

(f) Net foreign exchange income

Net foreign exchange income arises from both the sale and purchase of investment securities, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates and other market variables.

Gains or losses on assets or liabilities are included in profit or loss under net foreign exchange income.

(g) Leases

(i) Determination

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(ii) Group as a lessee

The Group leases various offices and are typically made for fixed periods of 6 months to 10 years but may have extension options. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. For leases of real estate for which the group is a lessee, it has elected to separate lease and non-lease components and instead accounted for them as separate component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in the financing conditions since third party financing was received;

Notes (continued)

2 Significant accounting policies (continued)

(g) Leases (continued)

(ii) Group as a lessee (continued)

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(iii) Group as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before income tax expense), which reflects a constant periodic rate of return. Payments received under operating lease are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes (continued)

2 Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(i) Financial assets and liabilities

(i) Classification and subsequent measurement

Financial assets

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Trade receivables that do not have a significant financing component are measured at their transaction price.

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;
- FVOCI; and
- FVTPL.

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, deposits and balances due from financial institutions including items in the course of collection, amounts due from related parties, loans and advances to customers, certain investment securities, and other assets at amortised cost.

The carrying amount of these assets is measured at amortised cost using the effective interest rate method and is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Financial assets (continued)

Fair Value through Other Comprehensive Income (FVOCI) – Debt

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 on the principal amount outstanding.

The Group classifies certain investments it has in government securities at FVOCI.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. The Group currently has no equity investments held 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 classifies derivative financial assets and loan notes at FVTPL.

A financial asset is classified into one of these categories on initial recognition. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises. Interest income and credit related income from these financial assets is included in "interest income" using the effective interest rate method.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Financial assets (continued)

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity may apply the OCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considered the contractual terms of its financial assets. The Group, through the Credit, Finance and Treasury departments will from time to time review the contractual terms of existing instruments and also review contractual terms of new products the Group develops or invests in going forward. This includes assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group shall consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

The prevailing rates are generally based on a regulator's rate and include a discretionary spread (Margin). In these cases, the Group will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Financial assets (continued)

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

Interest rate on loans made by other banking subsidiaries within the Group are based on the prevailing market rates depending on the specific country of operation.
Some of the Group's loans may contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

De minimis

A contractual cash flow characteristic may not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows. To make this determination, the Group considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Financial assets (continued)

Business model assessment (continued)

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The table below summarises the key features of each type of business model and the resultant measurement category:

BUSINESS MODEL	KEY FEATURES	CATEGORY
Held to collect	The objective of the business model is to hold assets to collect contractual cash flows. Sales are incidental to the objective of the model. This model typically involves the lowest level of sales in comparison with other business models (in frequency and volume).	Amortised cost (1)
Both held to collect and for sale	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model. This model typically has more sales (in frequency and volume) than the held-to-collect business model.	FVOCI (1)
Other business models, including: Trading, managing assets on a fair value basis and maximising cash flows through sale	The business model is neither held-to-collect nor held to collect and for sale. The collection of contractual cash flows is incidental to the objective of the model.	FVTPL (2)

Notes

1. Subject to meeting the SPPI criterion.
2. The SPPI criterion is irrelevant - i.e. assets in all business models are measured at FVTPL.

Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value. Deposits from customers, borrowed funds and other liabilities are also classified at amortised cost.

Reclassification

The Group only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Group's senior management as a result of external or internal changes.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Derecognition and contract modification

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Group has recalculated the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Write-off

The Group writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity; and
- Where the Group's recovery method is foreclosing on collateral and the value of the collateral is such there is no reasonable expectation of recovering in full.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Interest income recognition

According to IFRS 9 paragraph 5.4.1 interest revenue shall be calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition; and
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement (continued)

Interest income recognition (continued)

According to IFRS 9 paragraph 5.4.2 an entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b) (see (b) above), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating). In the context of the Central Bank regulations, credit impaired accounts would refer to the substandard, doubtful and loss risk classifications, and interest on these accounts is calculated on the gross carrying amount and not recognised in profit or loss but rather suspended in the statement of financial position.

Assets that are credit-impaired on initial recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract - e.g. a default or past-due event;
- A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event that caused the asset to be credit-impaired. Instead, the combined effect of several events may cause financial assets to become credit-impaired.

Measurement on initial recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate.

Subsequent measurement

The expected credit losses (ECLs) for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

Modifications

When the contractual cash flows of a POCI asset are modified and the modification does not result in derecognition, the calculation of the modification gain or loss is the difference between:

- the gross carrying amount of the asset before the modification; and
- the recalculated gross carrying amount.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Assets that are credit-impaired on initial recognition (continued)

Modifications (continued)

The recalculated gross carrying amount is the present value of the estimated future cash payments or receipts through the expected life of the modified financial asset discounted using the credit-adjusted effective interest rate before the modification.

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts

The impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group's loans and advances to customers, Investment in Government securities measured at amortised cost and FVOCI, balances due to group companies and other assets;
- lease and trade receivables – this applies to the Group's finance lease and trade receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Group's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments and financial assets measured at FVPL.

The Group recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group has recognised loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group has considered a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and have been measured as follows:
- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

For purposes of IFRS 9 there will generally be no difference between credit impaired and non-performing financial loans as defined by the regulator.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).
ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:
- The general approach
- The simplified approach

The simplified approach is applied for trade receivables or contract assets resulting from transactions in the scope of IFRS 15 Revenue from customer contracts or lease receivables resulting from transactions in the scope of IFRS 16 Leases. The Group has therefore applied the general approach.

The General Approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity must make the following assessment at each reporting date:

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(i) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

The General Approach (continued)

Stage 1 - For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).
ECL12m = PD12m x LGD12m x EAD12m x D12m

Stage 2 - For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).
ECL LT = LT∑T=1 PDt x LGDt x EADt x Dt

Stage 3 – For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs. However the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

Where: D – discounting factor and *t* - time

The table below shows the link between the regulator risk classifications and the IFRS 9 stage allocation for assets for banking subsidiaries in the Group.

Central Banks Guidelines	Days past due	Stage allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 365	3
Loss	Over 365 or considered uncollectible	3

Definition of default

The Group will consider a financial asset to be in default when:
- the borrower is unlikely to pay their credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Group; or
- if it meets the definition of the local regulator of default, if in the future the local regulator prescribe the criteria of default for IFRS 9 purposes.

This definition is largely consistent with the regulator definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Group will consider indicators that are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Definition of default (continued)

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has not rebutted the 90 Days Past Due (DPD) rule for identifying defaults.

Significant increase in credit risk (SICR)

The Group in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group identifies a significant increase in credit risk where

- exposures have a regulatory risk rating of 'WATCH';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing an exposures:
  - credit risk quality at the date of reporting; with
  - the credit risk quality on initial recognition of the exposure.

The Group has not followed an overall blanket approach to the ECL impact of COVID-19 (where COVID-19 is seen as a significant increase in credit risk (SICR) trigger that will result in the entire portfolio of advances moving into their respective next staging bucket). With the Group undertaking loan restructures on 32% of the loan book in 2020 (see the section "Restructuring" below), the Group incorporated qualitative factors to assess significant increase in credit risk on these loans as below:

- All loans whose business activity, in our assessment, was significantly lower than the pre-COVID period as at 31 December 2020 and 31 December 2021, was considered to have a significant increase in credit risk and downgraded to Stage 2.
- Loans in high risk industry segments (see the section "Restructuring" below) were assessed for significant increase in credit risk.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Credit risk classification

The Group allocates each exposure to a credit risk classification based on the regulatory requirements of the regulator which requires the prediction of the risk of default and applying experienced credit judgement. The Group shall use these classifications in identifying significant increases in credit risk under IFRS 9. The risk classifications are defined using the regulator's guidance, days past due, management assessment, qualitative and quantitative factors that are indicative of the risk of default.

These factors may vary depending on the nature of the exposure and the type of borrower. The Group shall undertake a thorough credit appraisal process and determine the credit quality of each exposure on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk classification.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework has been aligned with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly varies by portfolio and will include a backstop based on delinquency (30 DPD presumption).

Quantitative factors

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being in arrears for a period of 31 to 90 days in accordance with IFRS 9 paragraph 5.5.11. The Group has developed an internal rating model going forward and movement in rating grades between the reporting period and initial recognition date/ the date of initial application of IFRS 9 of the loan will form the basis of significant increase in credit risk.

Qualitative factors

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. The management view and judgement has included the following assessments:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation; and
- Deterioration in credit worthiness due to factors other than those listed above.

As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Backward transitions

Backward transitions define the criteria for moving a financial asset back from Stage 2 to Stage 1 or Stage 3 to Stage 2. The Group applies the considerations of the central bank prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1. Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2 subject to observation of the cooling off period as defined by prudential guidelines. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six (6) months.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

Restructuring

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Group's Credit Committee regularly reviews reports on restructuring activities.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Following restructuring, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

However, on the onset of the COVID-19 pandemic, the impact of the containment measures on the economy made it imperative for the Group to support its customers. The Group's view is that the economic impacts of the pandemic will be felt for a period of three to five years before there is full recovery. The Group therefore accommodated its customers to cushion them from the economic downturn by rescheduling their loan facilities for a period of 6 months to 36 months. The length of the period of accommodation depended on the impact of the pandemic on the industry in which the customer operates. The Group segregated the loan book into low risk, medium risk and high risk based on the industry. For example, Agriculture was rated as low risk, Mining as medium risk and Tourism and Hospitality and Real Estate as High Risk. The Group then accommodated for different periods depending on the level of risk.

The accommodation given to customers was given due to a macro economic issue that was facing customers in impacted industries. This was not an issue of an individual customer exhibiting significant increase in credit risk or default. These accommodations were therefore exempted from the general policy of a restructure being necessarily an indicator of significant increase in credit risk or default. This is fully compliant with the requirements of IFRS 9 and the Central Bank prudential guidelines. These loans are however monitored under a more stringent credit risk framework and judgmental factors are considered in the IFRS 9 provision methodology for these loans.

The Group applies the requirements of the Central Bank prudential guidelines where an account in Doubtful or Sub-standard category (Stage 3) will be upgraded to Watch if principal and interest payments are fully regularised at the point of restructure, the account is re-classified to Watch (Stage 2) and observed for six (6) months. Where the account continues to perform appropriately for an additional six (6) months the account is upgraded to normal and the Group reverts to measuring 12-month ECLs.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Restructuring (continued)

Where the account is restructured with the customer having not regularized overdue principal and interest, the account shall remain in Substandard for six (6) months or if in Doubtful category, twelve (12) months for observation. If the restructured account performs as per the new contract during the observation period, the account can be then upgraded to Watch (stage 2) and observed for another six (6) months where it can be further upgraded to Normal (stage 1) if good performance is sustained.

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

As a result of COVID-19, the Group restructured 0% (2020: 32%) of its loan book in the year with the restructure not resulting in derecognition. The following table refer to modified financial assets where modification does not result in derecognition.

	31 December 2021			31 December 2020		
	Amount pre-restructure	Modification gain/loss	Amount post-restructure	Amount pre-restructure	Modification gain/loss	Amount post-restructure
Classification	**Shs'millions**	**Shs'millions**	**Shs'millions**	**Shs'millions**	**Shs'millions**	**Shs'millions**
Stage 1	-	-	-	129,198	-	129,198
Stage 2	-	-	-	33,126	-	33,126
Stage 3	-	-	-	9,155	-	9,155
Total	-	-	-	**171,479**	-	**171,479**

The restructure of loans with loss allowance based on lifetime ECL did not result in a material modification gain or loss.

There were no financial assets whose loss allowance has changed in the period from lifetime to 12-month ECL basis after modification.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

ECL model

Segmentation

In order to determine the ECL by modelling the PD, LGD and EAD for different loan accounts, the Group has segmented the loan book into twelve industries namely Building & Construction, Energy & Water, Financial Services, Food and Agriculture, ICT and Telecommunications, Manufacturing, Mining and Quarrying, Personal Household, Real Estate, Tourism and Hospitality, Trade and Transport & logistics. The PDs are determined at industry level, LGD at customer or industry level (based on collateral and collections respectively) and EAD at account level. Where a borrower has been in several industries historically the Group uses the borrower's current segmentation.

In addition to the on-balance sheet facilities, the Group considered treasury products (investment securities and placements with other banking institutions) and the off balance sheet facilities offered by the Group such as guarantees, letters of credit, overdrafts and credit cards where an exposure is present. The EAD for these facilities is based on whether there is a commitment by the Group to fund a customer and the rate of conversion of such facilities (Credit Conversion Factor – CCF).

Risk parameters in measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:
- PD;
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters has been derived from internally developed statistical models and other historical data that leverage regulatory models. They have been adjusted to reflect forward-looking information as described below.

Probability of default

Probability of Default ("PD") refers to the likelihood of a default occurring and is a measure of the risk of default. In order to calculate IFRS 9 PD, there is a need to develop a PD term structure for calculating ECL (forward looking and lifetime PDs). PD estimates for loans and advances are estimates at a certain date, which has been calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and has been assessed at portfolio level for portfolios of assets that have similar characteristics. PDs have been estimated based on the theory of Markov Chain process. The method requires information regarding transitions among credit states. Credit states are defined by rating classes. The Group reviews and updates the portfolio PDs on a semi-annual basis.

The Group has drawn yearly transition matrix of ratings to compute a value or transaction-based PD over the one year horizon for the past 3-5 years. The Group has built data to 5 years and update every year thereafter for new data. The PDs are approved by the relevant Board committees for them to take effect. Transition probabilities are determined from the actually observed number of transitions over the observed period of time. These PDs have been classified as per stage 1 and 2 which is driven by the central bank risk classifications, management view and DPD. This rating migration captures the movement of obligors into default at yearly intervals.

An average default rate of 5 years is used. Based on the transitions of counterparties within the stages in value terms, the default estimation is done by the transition matrix.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Probability of default (continued)

PD estimates for other exposures are estimates at a certain date, which will be calculated based on statistical rating tools and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data has also been used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Lifetime PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates. Lifetime PDs are calculated using the Matrix Multiplication method utilising the Markov Chain method.

LGD

LGD is the forecast of the magnitude of the likely loss if there is a default. The Group has estimated LGD parameters based on collateral available for secured debt instruments against exposures and the history of recovery rates of claims against defaulted counterparties for unsecured portfolios.

LGD by collateral
The LGD models have considered the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. The Group will consider the eligibility of collateral. Collateral is eligible if the following can be demonstrated:

- Legal certainty and enforceability; and
- History of enforceability and recovery

LGD estimates have been calibrated for different collateral types. To reflect possible changes in property prices, the forced sale value (FSV) shall be considered for all collateral types.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

The collateral values to consider have been calculated on a discounted cash flow basis using the effective interest. The table below highlights the Group's acceptable collateral types;

No	Collateral Type
1	Cash Under Lien
2	Corporate Guarantees
3	Debenture/Land
4	Government Guarantee
5	Hire Purchase Agreement
6	Land & Buildings-Commercial
7	Land & Buildings-Residential
8	Logbooks
9	Shares
10	Treasury Bonds/Bills

LGD by Collections
For the purpose of LGD estimation on its non-collateralized portfolio, the Group shall compute LGD based on actual recoveries on its defaulted portfolio over a period of at least 3- 5 years prior to the assessment date. To determine this recovery rate, the Group has identified the point in time when accounts first go into default in half year periods, filter out any non-performing loan (NPL) accounts that cure and for the remaining accounts obtain data on amounts collected. The difference between the value of the NPL accounts that do not cure and the collections from these accounts as a percentage of the original NPL accounts (NPL accounts that cured and did not cure) is determined as the LGD. For individually assessed unsecured accounts, the LGD is assessed based on the circumstances of the facility.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Group has derived the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is measured as:

EAD = Outstanding exposure + (CCF*Undrawn portion)

For lending commitments and financial guarantees, the EAD has considered the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on behavioural study of historical patterns and forward-looking forecasts.

For revolving off-balance sheet positions, the CCF to be applied to the undrawn commitments have been derived from a behavioural study of historical patterns. In the case of undrawn commitments (i.e. undrawn portions of the Group's commitments for off-balance sheet items), if the terms of the contract clearly state that the commitment is unconditionally cancellable for any reason, the committed amounts for such arrangements has not be considered as EAD.

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii) Impairment – financial assets, loan commitments and financial guarantee contracts (continued)

Term of loan in calculating Lifetime ECL and determining the EAD
As described previously in this document, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group will consider a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee. For overdrafts, guarantee facilities and other revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

Forward-looking information

Under IFRS 9, the Group has incorporated forward-looking information in its measurement of ECLs. The Group has formulated a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Group's Executive Risk Committees (ALCO & CORC) and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in East Africa, supranational organisations such as the World Bank and the International Monetary Fund and selected private sector and academic forecasters. The base case represents a most-likely outcome and be aligned with information used by the Group for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include, among others, inflation rates, GDP forecasts, balance of trade, unemployment rates and interest rates. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets shall be developed based on analysing historical data over the previous 5 years. The economic scenarios used have been approved by the Group's Credit and Risk Committees.

(iii) Fair value measurement

The Group measures financial instruments such as derivatives, loan notes at FVTPL and FVOCI investment securities at fair value at each reporting date. Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(iii) Fair value measurement (continued)

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs.

Gains or losses on valuation of FVOCI are recognised in other comprehensive income.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

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

Notes (continued)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(iii) Fair value measurement (continued)

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th colspan="2">Class
(as determined by the Group)</th><th>Subclasses</th></tr>
<tr><td rowspan="16">Financial assets</td><td rowspan="2">Financial assets at fair value through profit or loss (FVTPL)</td><td>Financial assets held for trading</td><td colspan="2">Derivative financial assets</td></tr>
<tr><td>Financial assets designated at fair value through profit or loss</td><td colspan="2">Loan notes at FVTPL

Investment securities designated at FVTPL</td></tr>
<tr><td rowspan="12">Amortised cost</td><td colspan="3">Deposits and balances due from financial institutions</td></tr>
<tr><td colspan="3">Due from group companies</td></tr>
<tr><td rowspan="7">Loans and advances to customers</td><td rowspan="4">Loans to individuals (Agriculture and consumer)</td><td>Term loans</td></tr>
<tr><td>Mobile loans</td></tr>
<tr><td>Credit cards</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to micro, SME and large enterprises</td><td>Term loans</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td>Others</td></tr>
<tr><td colspan="3">Settlement and clearing accounts</td></tr>
<tr><td colspan="3">Cash balances with central banks</td></tr>
<tr><td colspan="3">Other assets</td></tr>
<tr><td></td><td colspan="3">Investment securities</td></tr>
<tr><td>Financial assets at fair value through other comprehensive income (FVOCI)</td><td colspan="3">Investment securities</td></tr>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities at amortised cost</td><td colspan="3">Deposits due to other financial institutions</td></tr>
<tr><td colspan="3">Deposits from customers</td></tr>
<tr><td colspan="3">Other liabilities</td></tr>
<tr><td colspan="3">Borrowed funds</td></tr>
<tr><td colspan="3">Due to group companies</td></tr>
<tr><td rowspan="2">Off-balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees, acceptances and other financial liabilities</td></tr>
</table>

Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in note 5 to the financial statements.

Notes (continued)

2 Significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and bank balances held with central banks in the countries in which the Group operates and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are classified and carried at amortised cost in the statement of financial position. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, unrestricted balances with central banks in the countries in which the Group operates and money market placements.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. After initial recognition, property and equipment are measured at cost less accumulated depreciation and impairment losses.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as they are incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment in order to write down the carrying amount over its useful life to its residual value. Freehold land is not depreciated

The annual rates of depreciation (2.5% - 33.3%) in use are as follows:

Buildings	2.5%
Motor vehicles and Village cell banking vans	25%
Office equipment, furniture and fittings	12.5%
Computer hardware	33.3%
ATM machines, core banking hardware	20%

Leasehold improvements are written off over their estimated useful lives or the lease period, whichever is shorter. The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year-end and adjusted prospectively, as a change in an estimate, if appropriate. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in profit or loss in the year the asset is derecognised.

Notes (continued)

2 Significant accounting policies (continued)

(l) Intangible assets

The Group's intangible assets include the value of computer software. Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. The intangible assets have a maximum useful life of ten years.

Acquired intangible assets

The customer relationship and core deposit intangible asset ("acquired intangible assets") were acquired as part of a business combination (Note 15 (a)). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives. Separately 'acquired intangible assets are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. The Group amortises intangible assets with a limited useful life, using the straight-line method over 1 period of 3 years. For brand name, this is not amortised since it has an indefinite useful life but assessed for impairment on an annual basis.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication that an asset may be impaired. If any such indication exists, then the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

Notes (continued)

2 Significant accounting policies (continued)

(m) Impairment of non-financial assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(n) Provisions

Provisions are recognised when the Group and Company have a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(o) Employee benefits

(i) Defined contribution schemes

The Group contributes to statutory defined contribution pension schemes (the National Social Security Fund (NSSF)), for Kenya, Tanzania, Uganda and Democratic Republic of Congo employees. The Group also contributes to the Rwanda Social Security Fund for Rwanda employees and to a private pension fund for employees in South Sudan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the schemes are held in a separate trustee administered funds, which are funded by contributions from both the Group and employees.

(ii) *Defined benefit plan*

The Group has an unfunded defined benefit scheme for employees in DRC. The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

For the defined benefit plan, the liability recognised in the statement of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on government securities that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognised in the income statement. When the defined benefit calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. The Group contributions to both schemes are charged to the statement of comprehensive income in the year to which they relate.

Notes (continued)

2 Significant accounting policies (continued)

(o) Employee benefits (continued)

In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement (Note 27).

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus and leave if the group has a present obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Group Strategy and Investment Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

(r) Dividends

Dividends are recognised as a liability and deducted from equity in the year in which they are declared when they are approved by the Company' Shareholders. Proposed dividends are disclosed as part of Note 28 (g).

(s) Deposits from customers

Deposits from customers are recognized and accounted for on receipt basis as liabilities. Interest expense is accrued on the deposits on a daily basis.

(t) Work in progress

Work-in-progress includes assets paid for but are not yet ready for the intended use and include software, computers and equipment. These are not depreciated and are capitalized when they get in the location and condition necessary for them to be capable of operating in the manner intended by management.

(u) Fiduciary assets

The Group entities provide trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group (note 35).

Notes (continued)

2 Significant accounting policies (continued)

(v) Derivative financial assets and liabilities

The Group enters into derivatives (currency forwards and swaps) for trading purposes. At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. The Group may take positions with the expectation of profiting from favourable movement in prices, rates or indices. The Group's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income.

The Group uses the following derivative instruments:

Currency forwards - Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Currency swaps - Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as a foreign currency rate. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency.

Currency spots - Spot contracts are contractual agreements between two parties to exchange streams with immediate settlement (payment and delivery) on the spot date, which is normally two business days after the trade date.

(w) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and others on behalf of customers to secure loans, overdrafts, and other banking facilities. Financial guarantees contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of loss allowance and;
- The premium received on initial recognition less recognition in accordance with the principles of IFRS 15

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Notes (continued)

2 Significant accounting policies (continued)

(x) Investment properties

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and /or capital appreciation and are not occupied by the Group are classified as investment property and are non-current assets. Investment property is carried at fair value, representing open market value determined every three years by external valuers. Properties under construction and development sites with projected use as investment properties are valued at projected fair values considering current market conditions. Changes in fair values are included in investment income in the income statement.

(y) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Measurement of expected credit loss allowance

The measurement of expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenarios for each type of product / market and associated ECL;
- Establishing groups of similar assets for the purposes of measuring ECL; and
- Determining LGDs of individually assessed loan accounts.

The expected credit loss allowance on loans and advances is disclosed in more detail in Notes 11 and 20 (b).

(b) Uncertain tax positions

Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the 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 income tax provisions in the period in which such determination is made.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions (continued)

(c) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes (continued)

4 Financial risk management

(a) Introduction and overview

The Group and Company have exposure to the following risks from its financial instruments:

- credit risk
- liquidity risk
- market risk
- capital risk

This note presents information about the Group's and Company's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There were no changes in the risk and capital management policies during the current financial year.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The Board has established the Board Risk Management Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Board Risk Management Committee is assisted in these functions by Risk Management Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Management Committee.

(b) 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.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to Group management through the Chief Executive Officer. Management has delegated this responsibility to head office and branch credit committees as prescribed in the Group's credit charter. A separate Group Credit Committee, reporting to the Chief Executive Officer, is responsible for oversight of the Group's credit risk, including: *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Notes (continued)

4 Financial risk management (management)

(b) Credit risk (continued)

Management of credit risk (continued)

- E*stablishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to head office and branch credit committees as stipulated in the Group's Credit Charter.

- *Reviewing and assessing credit risk* - The Group Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branch concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for investment securities).

- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group's credit risk department.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit department on the credit quality of local portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to branches to promote best practice throughout the Group in the management of credit risk.

Each branch is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit committee. Each branch has a credit risk manager who reports on all credit related matters to local management who report to Group management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches and Group credit processes are undertaken by internal audit.

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

The maximum exposure to credit risk for the components of the statement of financial position at 31 December is their carrying amount as illustrated in the tables below:

Group

Credit exposures	Note	2021 Shs' millions	%	2020 Shs' millions	%
On – balance sheet items					
Balances and deposits due from financial institutions*	19	180,044	15%	193,569	22%
Derivative financial assets	34	313	0%	438	0%
Investment securities	21	394,101	33%	217,408	24%
Due from related parties	29 (f)	160	0%	-	0%
Loans and advances to customers at amortised cost	20(a)	586,470	51%	476,581	53%
Loans and advances to customers at FVTPL	20(d)	1,305	0%	1,266	0%
Other assets**	22	13,441	1%	13,289	1%
		1,175,834		902,551	
Off-balance sheet items					
Guarantees and standby letters of credit	31	77,261		67,860	
Letters of credit, acceptances and other credits	31	41,625		36,142	
		118,886		104,002	
		1,294,720		1,006,553	

Company

Credit exposures	Note	2021 Shs' millions	%	2020 Shs' millions	%
On – balance sheet items					
Balances and deposits due from financial institutions	19	11,103	60%	8,818	94%
Due from related parties	29 (f)	203	1%	39	1%
Other assets	22	7,105	39%	504	5%
		18,411		9,361	

*Balances and deposits due from financial institutions excludes cash at hand as disclosed under Note 19 (a) as this does not pose a credit risk. The credit risk on balances and deposits due from financial institutions, investment securities and derivative financial assets is limited as the counterparties are all recognised financial institutions with good reputation. None of the balances are past due or impaired and no collateral is held for these balances. ECL has been assessed using a 12 month ECL and is disclosed in Note 19.

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments are excluded as they do not pose a credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing. None of the other assets and balances due from related parties are past due or impaired. No collateral is held for these assets. Management has established a related entity risk management framework including mandatory credit checks with counter parties. The arising ECL and remeasurement in the year is shown in Note 22.

Letters of credit, acceptances, guarantees and performance bonds are issued by the Group, on behalf of customers, to guarantee performance by customers to third parties. The Group will only be required to meet these obligations in the event of default by the customers. The off-balance sheet items have been assessed for impairment and resulting ECL booked as part of the total provisions held for loans and advances.

Exposure to credit risk – Loans and advances

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	
Amortised cost	**Shs' millions**	**Shs' millions**	**Shs' millions**	**Shs' millions**
Individually and collectively impaired				
Grade 3: Substandard	-	-	11,521	11,521
Grade 4: Doubtful	-	-	28,794	28,794
Grade 5: Loss	-	-	11,590	11,590
Gross amount	-	-	51,905	51,905
Provision for impairment losses	-	-	(33,980)	(33,980)
Carrying amount	-	-	17,925	17,925
Individually and collectively impaired				
Grade 1: Normal	495,302	-	-	495,302
Grade 2: Watch	-	85,705	-	85,705
Gross amount	495,302	85,705		581,007
Provision for impairment losses	(4,684)	(7,778)	-	(12,462)
Carrying amount	490,618	77,927	-	568,545
Total carrying amount				586,470
Fair value through profit or loss				
Loans note				5,672
Fair value loss				(4,367)
				1,305
Total carrying amount				587,775

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk – Loans and advances

	2020			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Amortised cost	**Shs' millions**	**Shs' millions**	**Shs' millions**	**Shs' millions**
Individually and collectively impaired				
Grade 3: Substandard	-	-	22,930	22,930
Grade 4: Doubtful	-	-	22,586	22,586
Grade 5: Loss	-	-	12,943	12,943
Gross amount	-	-	58,459	58,459
Provision for impairment losses	-	-	(34,880)	(34,880)
Carrying amount	-	-	23,579	23,579
Individually and collectively impaired				
Grade 1: Normal	393,416	-	-	393,416
Grade 2: Watch	-	72,710	-	72,710
Gross amount	393,416	72,710	-	466,126
Provision for impairment losses	(4,376)	(8,748)	-	(13,124)
Carrying amount	389,040	63,962	-	453,002
Total carrying amount				476,581
Fair value through profit or loss				
Loans note				5,505
Fair value loss				(4,239)
				1,266
Total carrying amount				477,847

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Grade 1 and grade 2 represent loans and advances that are not impaired. Grade 3, grade 4 and grade 5 refer to loans and advances that have been impaired in line with the Group's credit policy and internal model. These represent the loans and advances that the Group cannot collect according to contractual terms of the loan agreements.

Impaired loans
Impaired loans are loans which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans
These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

Allowances for impairment
The loss allowance recognised in the period is impacted by a variety of factors as follows:
- Transfers between Stages 1, 2 and 3 reflective of significant increases (or decreases) of credit risk or loans and advances becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.

Write-off policy
The Group writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions are generally based on a product specific past due default history.

Collateral on loans and advances

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, the business holding approved collateral must ensure that they are legally perfected and devoid of any encumbrances. Security structures and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.
The principal collateral types held by the Group for loans and advances are:
- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Valuation of collateral taken is within agreed parameters. The valuation is performed on origination, periodically in line with the Group policy and in the course of enforcement actions. Collateral for impaired loans is reviewed regularly to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation.

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Collateral on loans and advances (continued)

The Group has considered all relevant factors, including local market conditions and practices, before any collateral is realized.

The collateral held by the Group against loans and advances is as below;

	Group	
	2021 Shs' millions	2020 Shs' millions
Property	558,609	525,022
Equities	84	5
Other*	62,226	68,990
Total	620,919	594,017

*Other includes log-books, cash cover, debentures and directors' guarantees.

The Group monitors concentration of credit risk by industry. An analysis of concentrations of credit risk at the reporting date is shown below:

	Group	
	2021 Shs' millions	2020 Shs' millions
Concentration by sector		
Gross loans and advances (overall – amortised and fair value)		
Trade	154,704	110,358
Personal household	142,122	136,390
Real estate	101,623	86,235
Energy and water	41,683	29,220
Financial services	39,704	21,561
Transport and logistics	43,171	37,557
Food and agriculture	25,889	27,822
Mining & Quarrying	24,644	18,190
Manufacturing	23,792	19,401
Tourism and Hospitality	21,789	25,319
Building and construction	17,908	14,407
ICT and Telecommunication	1,555	3,630
	638,584	530,090

Exposure to credit risk – investment securities

Investment securities comprise treasury bills and bonds held with various governments in the Group. No collateral is held for these assets. None of the other financial assets are either past due or impaired. The balances have been assessed for impairment using a 12 month ECL and the arising ECL is shown in Note 21.

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk

The definition of liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for customer lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in: – an inability to support normal business activity; and – a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group. In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

The efficient management of liquidity is essential to the Group in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- Maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- maintain market confidence in the Group;
- set limits to control liquidity risk within and across lines of business;
- accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- maintain a contingency funding plan ("CFP") that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

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.

To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs.

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and borrowings due to mature within the next month.

The Group stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Group ratios of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

	Kenya	Uganda	South Sudan	Rwanda	Tanzania	DRC
At 31 December 2021						
At 31 December	93%	26%	172%	346%	35%	168%
Average for the year	76%	26%	162%	499%	30%	189%
Maximum for the year	93%	32%	172%	216%	35%	247%
Minimum for the year	56%	23%	146%	100%	25%	160%
Minimum statutory requirement	20%	*20%*	20%	100%	20%	100%
At 31 December 2020						
At 31 December	73%	22%	190%	392%	33%	160%
Average for the year	61%	27%	146%	267%	51%	179%
Maximum for the year	73%	32%	195%	392%	75%	193%
Minimum for the year	55%	22%	129%	149%	32%	158%
Minimum statutory requirement	20%	*20%*	20%	100%	20%	100%

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Group's financiall assets and liabilities as at 31 December.

Group 2021	**Less than 3 months Shs' millions**	**3-6 months Shs' millions**	**6-12 months Shs' millions**	**1-5 years Shs' millions**	**More than 5 years Shs' millions**	**Totals Shs' millions**
Financial assets						
Balances and deposits due from financial institutions	242,782	-	-	-	-	242,782
Loans and advances to customers	106,086	27,548	60,252	300,674	265,929	760,489
Investment securities	59,025	30,347	32,851	115,317	442,012	679,552
Derivative financial assets	313	-	-	-	-	313
Other assets	13,441	-	-	-	-	13,441
Amounts due to related parties	160	-	-	-	-	160
Total financial assets	421,807	57,895	93,103	415,991	707,941	1,696,737
Financial liabilities						
Deposits from customers	310,811	52,975	58,645	539,894	584	962,909
Borrowed funds	3,849	6,115	5,940	82,889	43,887	142,680
Other liabilities	23,375	-	-	-	-	23,375
Lease liabilities	568	444	878	5,976	2,660	10,526
Total financial liabilities	338,603	59,534	65,463	628,759	47,131	1,139,490
Liquidity gap at 31 December 2021	83,204	(1,639)	27,640	(212,768)	660,810	557,257

Off-balance sheet items	**0 - 3 months Shs' millions**	**3 - 6 months Shs' millions**	**6 - 12 months Shs' millions**	**1 - 5 Years Shs' millions**	**Total Shs' millions**
Guarantees and standby letters of credit	17,290	8,801	24,299	26,871	77,261
Letters of credit, acceptances and other documentary credits	31,961	6,510	1,596	1,558	41,625
Capital commitments	30	96	3,332	-	3,458
Loans approved but not disbursed	8,728	2,982	2,426	2,819	16,955
Total commitments and guarantees	58,009	18,389	31,653	31,248	139,299

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk (continued)

Group 2020	**Less than 3 months Shs' millions**	**3-6 Months Shs' millions**	**6-12 months Shs' millions**	**1-5 years Shs' millions**	**More than 5 years Shs' millions**	**Totals Shs' millions**
Financial assets						
Balances and deposits due from financial institutions	247,093	-	-	-	-	247,093
Loans and advances to customers	85,950	35,212	38,696	247,655	205,202	612,715
Investment securities	74,743	50,545	19,917	79,494	70,452	295,151
Derivative financial assets	438	-	-	-	-	438
Other assets	13,289	-	-	-	-	13,289
Total financial assets	421,513	85,757	58,613	327,149	275,654	1,168,686
Financial liabilities						
Deposits from customers	291,440	30,332	125,319	385,372	223	832,686
Borrowed funds	14,211	3,401	7,298	50,935	24,921	100,766
Amounts due to related parties	114	-	-	-	-	114
Other liabilities	23,359	-	-	2,957	-	26,316
Lease liabilities	511	547	1,152	4,831	421	7,462
Total financial liabilities	329,635	34,280	133,769	444,095	25,565	967,344
Liquidity gap at 31 December 2020	91,878	51,477	(75,156)	(116,946)	250,089	201,342

Off-balance sheet items	**0 - 3 months Shs' millions**	**3 - 6 months Shs' millions**	**6 - 12 months Shs' millions**	**1 - 5 Years Shs' millions**	**Total Shs' millions**
Guarantees and standby letters of credit	27,347	5,226	12,591	22,696	67,860
Letters of credit, acceptances and other documentary credits	7,107	9,269	14,196	5,570	36,142
Capital commitments	127	-	2,169	-	2,296
Loans approved but not disbursed	36,914	19,011	146	266	56,337
Total commitments and guarantees	71,495	33,506	29,102	28,532	162,635

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk (continued)

Company 2021	Less than 3 months Shs' millions	3-6 months Shs' millions	6-12 months Shs' millions	1-5 Years Shs' millions	Over 5 Years Shs' millions	Totals Shs' millions
Financial assets						
Balances and deposits due from financial institutions	11,103	-	-	-	-	11,103
Amounts due from related parties	203	-	-	-	-	203
Other assets	7,105	-	-	-	-	7,105
Total financial assets	18,411	-	-	-	-	18,411
Financial liabilities						
Amounts due to related parties	1,345	-	-	-	-	1,345
Borrowed funds	-	293	293	7,945	5,895	14,425
Other liabilities	2	-	-	-	-	2
Total financial liabilities	1,347	293	293	7,945	5,895	15,773
Liquidity gap at 31 December 2021	17,064	(293)	(293)	(7,945)	(5,895)	2,638

Company 2020	Less than 3 months Shs' millions	3-6 months Shs' millions	6-12 months Shs' millions	1-5 Years Shs' millions	Over 5 Years Shs' millions	Totals Shs' millions
Financial assets						
Balances and deposits due from financial institutions	8,818	-	-	-	-	8,818
Amounts due from related party	39	-	-	-	-	39
Other assets	504	-	-	-	-	504
Total financial assets	9,361	-	-	-	-	9,361
Financial liabilities						
Amounts due to related parties	442	-	-	-	-	442
Borrowed funds	-	283	283	2,255	12,521	15,342
Total financial liabilities	442	283	283	2,255	12,521	15,784
Liquidity gap at 31 December 2020	8,919	(283)	(283)	(2,255)	(12,521)	(6,423)

Notes (continued)

4 Financial risk management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) 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.

Market risk includes non-traded market risk which is the risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates. Non-trading portfolios also consist of foreign exchange and price risks arising from the Group's amortised and FVOCI financial assets.

Exposure to market risks – trading portfolios

Market Risk exposures arising from the trading book are managed by the Treasury department whilst those arising from the nontrading activities are managed through the ALM (Asset and Liability Management) and ICAAP processes.

Management of market risks

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Group's Treasury is responsible for the development of detailed market risk management policies and for day-to-day implementation of those policies.

Furthermore, it includes the protection and enhancement of the statement of financial position and statement of profit or loss and other comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

All foreign exchange risk within the Group is managed by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes (refer to note 34).

Overall authority for market risk management is vested in the Board Risk Management Committee. The Finance and Treasury departments in collaboration with the Risk Management department are responsible for the development of detailed market risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

The Group's robust risk management framework continues to be applied across the various risk areas introduced by financial instruments and the various risk owners continue to monitor the impact of COVID-19 on the Group's risk profile.

Notes (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

Market risk measurement techniques

(i) Value at risk

The Group applies a 'value at risk' (VAR) methodology to its foreign currency trading to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for each banking subsidiary, which are monitored on a daily basis by the Treasury department of each banking subsidiary.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the banking subsidiary might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Group's market risk control regime. VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits is reviewed daily by the Treasury department of each banking subsidiary and centrally by Group Treasury. The result of the VAR testing in the year were within the acceptable thresholds. The Group continues to monitor the impact of COVID-19 on VAR across its subsidiaries.

(ii) Stress tests

The Group applies a 'stress test' methodology to its non-trading book. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by heads of business unit and by the Board. The stress testing is tailored to the business and typically uses scenario analysis. The Group's test results in the year were within the expected threshold. Management continue to monitor the stress levels especially in light of COVID-19 to ensure the Group's risk profile is robust.

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Board Risk Management Committee is the monitoring body for compliance with these limits and is assisted by Treasury back office and Finance department in the day-to-day monitoring activities, while Risk Management department carries out regular reviews. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Notes (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk (continued)

Financial assets and liabilities subject to interest rate fluctuations.

Included in the table below are financial assets and financial liabilities at carrying amount categorised by earlier of contractual repricing or maturity date.

31 December 2021	Carrying amount Shs' millions	Non-interest bearing Shs' millions	Less than 3 months Shs' millions	3-6 months Shs' millions	6-12 months Shs' millions	1-5 years Shs' millions	More than 5 years Shs' millions
Assets							
Balances and deposits due from financial institutions	242,782	186,473	56,309	-	-	-	-
Loans and advances to Customers	587,775	-	587,775	-	-	-	-
Investment securities	394,101	-	54,240	22,586	11,876	42,661	262,738
	1,224,658	186,473	698,324	22,586	11,876	42,661	262,738
Liabilities							
Deposits from customers	958,977	594,182	151,021	47,352	61,268	104,570	584
Borrowed funds	128,340	-	7,532	6,014	5,817	68,454	40,523
Lease Liabilities	8,900	-	900	841	1,276	5,173	710
	1,096,217	594,182	159,453	54,207	68,361	178,197	41,817
Interest rate sensitivity gap	128,441	(407,709)	538,871	(31,621)	(56,485)	(135,536)	220,921

Notes (continued)

4 Financial risk management (continued)

(d) Market risks (continued)

Interest rate risk (continued)

31 December 2020	Carrying amount Shs' millions	Non-interest bearing Shs' millions	Less than 3 Months Shs' millions	3-6 Months Shs' millions	6-12 Months Shs' millions	1-5 Years Shs' millions	More than 5 Years Shs' millions
Assets							
Balances and deposits due from financial institutions	247,093	103,999	143,094	-	-	-	-
Loans and advances to customers	477,847	-	477,847	-	-	-	-
Investment securities	217,408	333	70,961	47,613	7,284	24,384	66,833
	942,348	104,332	691,902	47,613	7,284	24,384	66,833
Liabilities							
Deposits from customers	740,801	511,415	26,335	25,410	120,400	56,953	288
Borrowed funds	97,148	-	13,743	3,143	6,892	53,804	19,566
Lease Liabilities	6,688	-	519	487	984	4,315	383
	844,637	511,415	40,597	29,040	128,276	115,072	20,237
Interest rate sensitivity gap	97,711	(407,083)	651,305	18,573	(120,992)	(90,688)	46,596

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee (ALCO) monitors compliance with the set interest rate gaps.

Notes (continued)

4 Financial risk management (continued)

(d) Market risks (continued)

Company interest rate risk

31 December 2021	Carrying amount Shs' millions	Less than 3 Months Shs' millions	1-5 Years Shs' millions	More than 5 Years Shs' millions
Assets				
Cash and cash equivalents	11,103	11,103	-	-
Liabilities				
Borrowed funds	(11,461)	-	(5,786)	(5,675)
Interest rate sensitivity gap	(358)	11,103	(5,786)	(5,675)
31 December 2020				
Assets				
Cash and cash equivalents	8,818	8,818	-	-
Liabilities				
Borrowed funds	(10,938)	-	-	(10,938)
Interest rate sensitivity gap	(2,120)	8,818	-	(10,938)

During the year, a 3% increase / decrease (2020: 5%) of the annual interest rate would have the following effect on profit or loss and equity:

	Sensitivity	Group impact on profit or loss Shs' millions	Company impact on profit or loss Shs' millions	Group impact on equity Shs' millions	Company impact on equity Shs' millions
2021	+/-3%	+/-1,203	+/-1	+/-842	+/-1
2020	+/-5%	+/-1,834	+/-21	+/-1,284	+/-14

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Treasury and price risk is subject to regular monitoring by Board Risk Management Committee. Currently, the exposure to other market risks on non-trading portfolio is not significant in relation to the overall results and financial position of the Group.

Foreign currency exposure

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of directors has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and strategies used to ensure that positions are maintained within the established limits. The amounts below summarize the foreign currency exposure position as at 31 December.

Notes (continued)

4 Financial risk management (continued)

(d) Market risks (continued)

Foreign currency exposure (continued)

Group	US$ Shs' millions	GBP Shs' millions	Euro Shs' millions	ZAR Shs' millions	Others Shs' millions	Total Shs' millions
31 December 2021						
Cash and cash equivalents	103,546	266	4,557	82	440	108,891
Loans and advances to customers	320,661	113	1,383	-	-	322,157
Investment securities	125,918	-	5	-	772	126,695
Other assets	23,354	146	866	-	5	24,371
Total assets	573,479	525	6,811	82	1,217	582,114
Customer deposits	425,680	465	7,875	683	139	434,842
Borrowed funds	96,824	-	96	-	801	97,721
Other liabilities	32,985	24	53	-	6	33,068
Total liabilities	555,489	489	8,024	683	946	565,631
Net financial position	17,990	36	(1,213)	(601)	271	16,483
31 December 2020						
Cash and cash equivalents	175,571	545	4,440	77	1,429	182,062
Loans and advances to customers	216,242	91	778	-	-	217,111
Investment securities	16,097	-	-	-	2,187	18,284
Other assets	11,356	81	299	-	51	11,787
Total assets	419,266	717	5,517	77	3,667	429,244
Customer deposits	263,388	851	6,792	3	1,351	272,385
Borrowed funds	82,590	-	17	-	752	83,359
Other liabilities	53,486	25	223	7	5	53,746
Total liabilities	399,464	876	7,032	10	2,108	409,490
Net financial position	19,802	(159)	(1,515)	67	1,559	19,754

Notes (continued)

4 Financial risk management (continued)

(d) Market risks (continued)

Foreign currency exposure (continued)

Company	2021 US$ Shs' millions	2021 Total Shs' millions	2020 US$ Shs' millions	2020 Total Shs' millions
31 December 2020				
Cash and cash equivalents	9,187	9,187	8,498	8,498
Total assets	9,187	9,187	8,498	8,498
Borrowed funds	11,461	11,461	10,938	10,938
Total liabilities	11,461	11,461	10,938	10,938
Net financial position	(2,274)	(2,274)	(2,440)	(2,440)

Group		Effect on profit before income tax Shs' millions	Effect on equity Shs' millions
	Changes in EUR		
2021	+/-4%	+/-49	+/-34
2020	+/-18%	+/-271	+/-189
	Changes in US$		
2021	+/-4%	+/-720	+/-503
2020	+/-8%	+/-1,544	+/-1,080
	Changes in GBP		
2021	+/-2%	+/-1	+/-1
2020	+/-11%	+/-18	+/-13
Company			
	Changes in US$		
2021	+/-4%	+/-91	+/-64
2020	+/-8%	+/-165	+/-124

The analysis calculates the effect of a reasonably possible movement of the currency rate against other currencies profit or loss and equity. A negative amount in the table reflects a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

Notes (continued)

4 Financial risk management (continued)

(e) Capital management

Capital risk is the risk that the Group is unable to maintain adequate levels of capital which could lead to an inability to support business activity or to meet regulatory requirements. Changes to credit ratings, could result in increased costs or reduced capacity to raise funding.

The primary objectives of the Group's capital management policy are to ensure that the Group complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. This is done by the Board of Directors. The Group Board manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group Board may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. Primary objectives and core practices are:

- Provide a viable and sustainable business offering by maintaining adequate capital to cover the Group's current and forecast business needs and associated risks;
- Meet minimum regulatory requirements;
- Ensure the Group maintains adequate capital to withstand the impact of the risks that may arise under the stressed conditions;
- Perform internal and regulatory stress tests;
- Maintain capital buffers over regulatory minimum;
- Develop contingency plans for severe (stress management actions) to support the Group's and Company's growth and strategic options; and
- Maintain a capital plan on a short-term and medium term basis aligned with strategic objectives.

We adopt a forward-looking, risk-based approach to capital risk management. Capital demand and supply is actively managed taking into account the regulatory, economic and commercial environment in which Group operates.

The Group's policy is to maintain 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 Group and the Company 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.

The Group has complied with all externally imposed capital requirements throughout the year except for EquityBCDC (EBCDC). The Group Board of Directors has approved measures to restore EBCDC's capital above regulatory minimum.

Notes (continued)

4 Financial risk management (continued)

(e) Capital management

The regulatory capital position at 31 December was as follows:

Shs 'millions	EBKL	Equity BCDC	EBTL	EBUL	EBRPLC	EBSSL
31 December 2021						
Risk Weighted Assets	704,636	216,190	22,246	61,580	36,162	1,424
Core Capital	93,843	20,041	3,314	12,162	7,211	4,035
Total Capital	132,496	23,666	3,460	12,162	7,211	4,035
Deposits	648,453	361,378	26,021	72,944	36,875	7,946
Core capital / TRWA	13.3%	9.3%	14.9%	19.7%	19.9%	283.3%
Statutory minimum	10.5%	7.5%	12.5%	10.0%	10.0%	8.0%
Excess	2.8%	1.8%	2.4%	9.7%	9.9%	275.3%
Total capital / TRWA	18.8%	10.9%	15.6%	20.8%	19.9%	283.3%
Statutory minimum	14.5%	10.0%	14.5%	12.0%	15.0%	12.0%
Excess	4.3%	0.9%	1.1%	8.8%	4.9%	271.3%
Core capital / deposits	20.0%	5.5%	9.9%	16.7%	10.5%	50.8%
Statutory minimum	10.8%	8.0%	8.0%	10.0%	8.0%	8.0%
Excess	12%	(2.5%)	1.9%	6.7%	2.5%	42.8%

31 December 2020	EBKL	Equity BCDC	EBTL	EBUL	EBRPLC	EBSSL
Risk Weighted Assets	566,959	150,533	24,449	50,762	23,939	730
Core Capital	70,268	24,826	2,994	8,859	5,340	3,430
Total Capital	92,118	24,826	3,239	8,859	5,340	3,430
Deposits	496,748	233,985	17,839	48,447	26,966	5,683
Core capital / TRWA	12.4%	16.5%	12.6%	17.5%	22.3%	469.9%
Statutory minimum	10.5%	7.5%	12.5%	10.0%	10.0%	8.0%
Excess	1.9%	8.0%	0.1%	7.5%	12.3%	461.9%
Total capital / TRWA	16.2%	16.5%	13.2%	17.5%	22.3%	469.9%
Statutory minimum	14.5%	10.0%	14.5%	12.0%	15.0%	12.0%
Excess	1.7%	6.5%	(1.3%)	5.5%	7.3%	457.6%
Core capital / deposits	14.1%	10.6%	16.8%	18.6%	19.8%	60.4%
Statutory minimum	8.0%	8.0%	8.0%	10.0%	10.0%	8.0%
Excess	6.1%	2.6%	8.8%	8.6%	9.8%	52.4%

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

	Group 2021 Shs' millions	2020 Shs' millions
Total risk-weighted assets	1,051,432	809,585
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	17.7%	19.0%
Total tier 1 capital expressed as a percentage of risk-weighted Assets	12.9%	14.8%

5 Financial assets and liabilities

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Non-performance risk refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. The fair value of cash and cash equivalents, loans and advances, customer deposits and borrowed funds are evaluated by the Group based on parameters such as interest rates, specific country factors and individual creditworthiness of the customer. The valuation is performed on a discounted cash flow basis. Based on this evaluation, allowances are taken to account for the expected losses of the receivables.

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values. The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair values of loans and advances, borrowings and other financial liabilities, are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair values of remaining FVOCI financial assets are derived from quoted market prices in active markets. There have been no transfers between Level 1 and Level 2 during the year ended 31 December 2021(2020: Nil).

The table below shows certain financial assets and financial liabilities that have been measured at either fair value, or for which fair value has been disclosed in the financial statements, analysed by the level of valuation method.

Notes (continued)

5 Financial assets and liabilities (continued)

Level 2	**Valuation Technique**	**Significant observable input**	**Range (Weighted average) 2021**	**2020**
FVOCI investment securities	Fair value at closing rate	Quoted yields	7-11%	7%-10.5%
Amortised cost investment Securities	Fair value at closing rate	Quoted yields	9.5 - 11.5%	9.5%- 11.5%
FVTPL investment securities	Fair value at closing rate	Quoted yields	6-10.5%	7%-10.5%
Level 3				
Currency swaps and forwards	Forward pricing model	Interest curve	1.8-3.3%	2%-3.5%
Loans note at FVTPL				
Financial liabilities	*			
Deposits from customers- fixed deposits	Discounted cash flow	Fixed rate and fixed time period	4-8%	5%-8.5%
Borrowed funds	Discounted cash flow	Expected cashflows	4-6%	4%-5%

*Equity Bank Kenya Limited (EBKL) holds a loan note that contains an embedded derivative and has therefore been measured at fair value through profit or loss. For this, the fair value is composed of two key cashflow components, being the interest receivable on the mandatorily convertible component of the loan note and valuation of the shares upon whose sale the principal debt amount will be realised. Any shortfall from the above cashflow streams is covered, albeit partially, by a government guarantee.

In valuing the hybrid instrument, management has only considered the Government guarantee as there is significant uncertainty in relation to the future recovery of interest and recovery of amounts from sale of shares. In particular, the original borrower company is loss making, is in a significant shareholders' deficit position and has been significantly adversely impacted by the COVID-19 pandemic.

Notes (continued)

5 Financial assets and liabilities (continued)

Fair value measurement hierarchy

Group	**Level 1 Shs' millions**	**Level 2 Shs' millions**	**Level 3 Shs' millions**	**Total Shs' millions**
At 31 December 2021				
Financial assets fair value disclosures:				
Investment securities – FVOCI	-	377,153	-	377,153
Loan note at FVTPL	-	-	1,305	1,305
Derivative financial assets	-	313	-	313
Investment securities - FVTPL	-	3,242	-	3,242
Total financial assets at fair value	-	380,708	1,305	382,013
At 31 December 2020				
Financial assets fair value disclosures				
Investment securities – FVOCI	-	201,080	-	201,080
Loan note at FVTPL	-	-	1,266	1,266
Derivative financial assets	-	438	-	438
Investment securities - FVTPL	-	484	-	484
Total financial assets at fair value	-	202,002	1,266	203,268

The movement in the loan note at FVTPL is attributable to exchange and fair value changes.

The following summarises the carrying amount of those assets and liabilities not held at fair value. Except for amortised cost investment securities, the carrying amount of assets and liabilities held at amortised cost is considered to approximate their fair value where they have short tenor or, for long term facilities, earn/accrue interest at market rate.

Notes (continued)

5 Financial assets and liabilities (continued)

Fair value measurement hierarchy

Group	Carrying amount Shs' millions	Fair value Shs' millions	Level 1 Shs' millions	Level 2 Shs' million	Level 3 Shs' millions
At 31 December 2021					
Cash balances and deposits in financial institutions	242,782	242,782	-	-	242,782
Investment securities – amortised cost	13,706	12,711	-	12,711	-
Amounts due from related parties	160	160	-	-	160
Loans and advances at amortised cost	586,470	586,470	-	-	586,470
Other assets	13,441	13,441	-	-	13,441
Total financial assets	856,559	855,564	-	12,711	842,853
Deposits from customers	958,977	958,977	-	-	958,977
Borrowed funds	128,340	128,340	-	-	128,340
Lease liabilities	8,900	8,900	-	-	8,900
Other liabilities	29,341	29,341	-	-	29,341
Total liabilities	1,125,558	1,125,558	-	-	1,125,558
At 31 December 2020					
Balances and deposits due from financial institutions	247,093	247,093	-	-	247,093
Investment securities – amortised cost	15,844	14,163	-	14,163	-
Loans and advances at amortised cost	476,581	476,581	-	-	476,581
Other assets	13,289	13,289	-	-	13,289
Total financial assets	752,807	751,126	-	14,163	736,963
Deposits from customers	740,801	740,801	-	-	740,801
Borrowed funds	97,148	97,148	-	-	97,148
Lease Liabilities	6,688	6,688	-	-	6,688
Due from related parties	114	114	-	-	114
Other liabilities	26,316	26,316	-	-	26,316
Total liabilities	871,067	871,067	-	-	871,067

Notes (continued)

5 Financial assets and liabilities (continued)

Company	Carrying amount Shs' millions	Fair value Shs' millions	Level 1 Shs' millions	Level 2 Shs' million	Level 3 Shs' millions
At 31 December 2021					
Cash balances and deposits in financial institutions	11,103	11,103	-	-	11,103
Due from related parties	203	203	-	-	203
Other assets	7,105	7,105	-	-	7,105
Total financial assets	18,411	18,411	-	-	18,411
Borrowed funds	11,461	11,461	-	-	11,461
Due to related parties	1,345	1,345	-	-	1,345
Other liabilities	2	2	-	-	2
Total liabilities	12,808	12,808	-	-	12,808

	Carrying amount Shs' millions	Fair value Shs' millions	Level 1 Shs' millions	Level 2 Shs' million	Level 3 Shs' millions
At 31 December 2020					
Cash balances and deposits in financial institutions	8,818	8,818	-	-	8,818
Due from related parties	39	39	-	-	39
Other assets	504	504	-	-	504
Total financial assets	9,361	9,361	-	-	9,361
Due to related parties	10,938	10,938	-	-	10,938
Other liabilities	442	442	-	-	442
Total liabilities	11,380	11,380	-	-	11,380

Notes (continued)

6 Interest income

	Group		Company	
	2021	2020	2021	2020
	Shs' millions	Shs' millions	Shs' millions	Shs' millions
Interest income				
Loans and advances to customers	64,074	52,280	-	-
Cash and cash equivalents	942	2,246	603	423
Credit related fees	7,595	6,621	-	-
Investment securities at amortised cost	3,347	5,273	-	-
Investment securities at FVOCI	26,107	13,966	-	-
	102,065	80,386	603	423
Interest expense				
Deposits from banks	(2,198)	(150)	-	-
Deposits from customers	(17,859)	(13,683)	-	-
Borrowed funds (Note 26)	(4,851)	(4,015)	(570)	(13)
Lease liabilities (Note 14)	(626)	(768)	-	-
	(25,534)	(18,616)	(570)	(13)
Net interest income	76,531	61,770	33	410

7 Net fee and commission income

	Group	
	2021	2020
(a) Fee and commission income	Shs' millions	Shs' millions
Recognised at a point in time		
Service fees and commission	21,494	15,931
Custodial fee income	131	120
	21,625	16,051
(b) Fee and commission expense		
Fee and commission expense	(7,039)	(5,950)
Net fee and commission income	14,586	10,101

The service fees largely relate to fees earned from transactions with customers and commissions earned on facilitation of remittances.

Notes (continued)

8 Net foreign exchange income

	Group 2021 Shs' millions	Group 2020 Shs' millions
Net foreign exchange gain	8,187	6,210

9 Other operating income

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Realised gain on investment securities	2,951	3,056	-	-
Profit on disposal of property and equipment	-	7	-	-
Rental income	339	244	-	-
Insurance brokerage income	179	889	-	-
Other income*	2,136	4,664	(95)	10
	5,605	8,860	(95)	10

*Other income includes unrealised foreign exchange gain on monetary assets and liabilities as well as fee income from government social payments and other programmes.

10 Depreciation and amortisation – Group

	2021 Shs' millions	2020 Shs' millions
Depreciation on property and equipment (Note 14 (a))	3,338	3,428
Amortisation of intangible assets - Software (Note 15 (a))	1,987	1,341
Depreciation of right-of-use assets (Note 14 (b))	1,903	1,832
	7,228	6,601

11 Credit impairment losses

	Note	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Movements during the year:					
Increase in other assets	22	71	5	-	-
(Decrease)/increase / in money market	19 (a)	(146)	352	(1)	-
Increase in investment securities	21	71	19	-	-
Loans and advances:					
(Decrease) / increase in Stage 1	20 (b)	308	(956)	-	-
(Decrease) / increase in Stage 2	20 (b)	(971)	4,559	-	-
Increase in Stage 3	20 (b)	6,383	19,414	-	-
Net increase in impairment losses		5,716	23,393	(1)	-
Loan recoveries		(933)	(767)	-	-
Statement of profit or loss		4,783	22,626	(1)	-

Notes (continued)

12 Employee benefits

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Salaries and other staff costs	17,700	14,365	10	53
Defined contribution plans	1,260	1,055	-	-
Defined benefit plans (Note 27)	148	122		
	19,108	15,542	10	53

The average number of staff in the Group for the year was 7,688 (2020: 7,119).

13 Lease expenses

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
VAT & service charge	158	377	-	4

Lease expenses relate to VAT and service charge which are excluded in the assessment of lease liability and right-of-use asset.

14 (a) Property and equipment – Company

Equipment, furniture & fittings	2021 Shs' millions	2020 Shs' millions
Cost		
At start of year	14	12
Additions during the year	-	2
At end of year	14	14
Accumulated depreciation		
At start of year	2	-
Charge for the year	2	2
At end of year	4	2
Net book value at end of year	10	12

Notes (continued)

14 (a) Property and equipment – Group

	Freehold land & buildings Shs' millions	Leasehold improvements Shs' millions	Motor vehicles Shs' millions	Equipment, furniture & fittings Shs' millions	Computers Shs' millions	Work-in-progress Shs' millions	Total Shs' millions
31 December 2021							
Cost							
At start of year	6,213	12,972	1,205	9,620	17,535	849	48,394
Translation differences	738	298	39	1,080	(383)	(140)	1,632
Additions	35	350	36	231	320	798	1,770
Transfers	13	330	-	70	219	(632)	-
Disposals	(20)	(387)	(83)	(794)	(1,139)	-	(2,423)
At end of year	6,979	13,563	1,197	10,207	16,552	875	49,373
Accumulated depreciation							
At start of year	947	9,579	967	6,650	14,347	-	32,490
Translation differences	(1)	160	46	641	(123)	-	723
Charge for the year	248	1,014	98	812	1,165	1	3,338
Disposals	(7)	(375)	(83)	(786)	(1,127)	-	(2,378)
At end of year	1,187	10,378	1,028	7,317	14,262	1	34,173
Net book value at end of year	5,792	3,185	169	2,890	2,290	874	15,200

Notes (continued)

14 (a) Property and equipment – Group

	Freehold land & buildings Shs' millions	Leasehold improvements Shs' millions	Motor vehicles Shs' millions	Equipment, furniture & fittings Shs' millions	Computers Shs' millions	Work-in-progress Shs' millions	Total Shs' millions
31 December 2020							
Cost							
At start of year	1,603	11,713	567	7,133	14,761	1,371	37,148
Acquisition of a subsidiary	4,449	-	577	1,929	1,141	927	9,023
Translation differences	108	548	23	(520)	634	79	872
Additions	53	637	76	792	701	(19)	2,240
Transfers	-	149	-	331	1,029	(1,509)	-
Disposals	-	(75)	(38)	(45)	(731)	-	(889)
At end of year	6,213	12,972	1,205	9,620	17,535	849	48,394
Accumulated depreciation							
At start of year	118	8,205	371	4,723	12,700	-	26,117
Acquisition of a subsidiary	586	-	486	1,612	556	-	3,240
Translation differences	8	433	12	(282)	357	-	528
Charge for the year	235	981	122	625	1,465	-	3,428
Disposals	-	(40)	(24)	(28)	(731)	-	(823)
At end of year	947	9,579	967	6,650	14,347	-	32,490
Net book value at end of year	5,266	3,393	238	2,970	3,188	849	15,904

Notes (continued)

14 (b) Right-of-use assets – Group

	Group 2021 Shs' millions	Group 2020 Shs' millions
Cost		
At start of year	9,619	9,055
Acquisition of a subsidiary	-	266
Remeasurements	3,006	239
Disposals	(220)	-
Translation differences	679	59
At end of year	13,084	9,619
Accumulated depreciation		
At start of year	3,529	1,713
Acquisition of a subsidiary	-	25
Remeasurements	118	(56)
Charge for the year	1,903	1,832
Disposals	(220)	-
Translation differences	(336)	15
	4,994	3,529
Net book value at end of year	8,090	6,090

(c) Lease liabilities – Group

	2021	2020
Current	3,017	1,990
Non-current	5,883	4,698
	8,900	6,688
Movement during the year:		
At start of year	6,688	7,496
Acquisition of a subsidiary	-	271
Remeasurements	3,006	314
Interest expense	626	768
Interest paid	(554)	(754)
Principal elements of lease payments	(1,864)	(1,405)
Translation differences	998	(2)
	8,900	6,688
Amounts recognised in the statement of profit or loss:		
Depreciation charge of right-of-use assets – branches and ATMs	1,903	1,832
Interest expense	626	768
	2,529	2,600

Notes (continued)

14 (c) Lease liabilities – Group (continued)

Amounts recognised in the statement of cash flows:	**Group**	
	2021	**2020**
	Shs' millions	**Shs' millions**
The total cash outflow for leases was as follows:		
Financing cash flows from leases	2,418	1,405

14 (d) Investment properties

(i) Measuring investment property at fair value

Investment properties, principally office buildings, are held for long-term rental yields and are not occupied by the Group. They are carried at fair value. Changes in fair values are presented in other income.

The Group's investment properties are held in Democratic Republic of Congo (DRC) were valued by ImmoAf, the Group's external qualified professional valuer who has experience in the location and category of the respective investment property.

(ii) Non-current assets - at fair value

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
At start of the year	5,576	-
Acquisition of a subsidiary	-	5,075
Additions	39	-
Translation differences	(34)	501
At 31 December	5,581	5,576

(iii) Amounts recognised in profit or loss for investment properties

Rental income from operating leases	200	231
Direct operating expenses from property that generated rental income	(123)	(76)

(iv) Fair value hierarchy

Investment Properties	**Level 1 Shs' millions**	**Level 2 Shs' millions**	**Level 3 Shs' millions**	**Total Shs' millions**
31 December 2021	-	-	5,581	5,581
31 December 2020	-	-	5,576	5,576

The following are the main inputs:

- Occupancy rate (Between 91% to 94% (2020: 92.5% to 95%))
- Weighted average rent of Shs 1,647 (2020: Shs 2,400) per square metre
- Risk-adjusted discount rates (Weighted average 4.2% (2020: 3.8% to 5.2%))
- Market rental growth (Weighted average of between 2.3% to 2.7% (2020: 2.5% to 2.6%)

Notes (continued)

15 Intangible assets – Group

	2021 Shs' millions	2020 Shs' millions
Software & acquired intangible assets	10,738	9,621
Goodwill	2,065	1,970
	12,803	11,591

15 (a) Software & acquired intangible assets

Group	Software	Acquired intangible asset	Work in progress	Total
31 December 2021	**Shs' millions**	**Shs' millions**	**Shs' millions**	**Shs' millions**
Cost				
At start of year	14,940	1,882	1,114	17,936
Translation differences	(146)		(107)	(253)
Additions	83	-	3,187	3,270
Transfers	1,524	-	(1,524)	-
Disposals	(51)	-	-	(51)
At end of year	16,350	1,882	2,670	20,902
Amortisation				
At start of year	8,315	-	-	8,315
Translation differences	(87)	-	-	(87)
Amortisation	1,410	577	-	1,987
Disposals	(51)	-	-	(51)
At end of year	9,587	577	-	10,164
Net book value at end of year	6,763	1,305	2,670	10,738
31 December 2020				
Cost				
At start of year	12,955	-	758	13,713
Acquisition of a subsidiary	641	1,882	194	2,717
Translation differences	(234)	-	(12)	(246)
Additions	1,299	-	453	1,752
Transfers	279	-	(279)	-
At end of year	14,940	1,882	1,114	17,936
Amortisation				
At start of year	6,469	-	-	6,469
Acquisition of a subsidiary	538	-	-	538
Translation differences	(33)	-	-	(33)
Amortisation	1,341	-	-	1,341
At end of year	8,315	-	-	8,315
Net book value at end of year	6,625	1,882	1,114	9,621

Notes (continued)

15 (a) Software & acquired intangible assets (continued)

The Group's intangible assets include the value of computer software.

The work-in-progress is composed of software in development. Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Group has the intention and ability to complete and use the software and the costs can be measured reliably. The transfers relate to projects completed in the course of the year.

Acquired intangibles assets relate to core deposits (Shs 735 million), customer relations, (Shs 649 million) and Brand (Shs 498 million) arising from the acquisition of EBCDC (formerly BCDC) in 2020 as explained in Note 15c.

15 (b) Goodwill

	Carrying amount at 1 January Shs' millions	Other adjustment Shs' millions	Effect of exchange rate changes Shs' millions	Carrying amount at 31 December Shs' millions
Year ended 31 December 2021				
Equity Bank Uganda Limited	719	-	50	769
Equity BCDC	1,251	-	45	1,296
	1,970	-	95	2,065
Year ended 31 December 2020				
Equity Bank Uganda Limited	887	-	(168)	719
Equity Bank Congo S.A	2,216	(1,009)	44	1,251
	3,103	(1,009)	(124)	1,970

The other adjustment in 2020 was to correct overstatement of goodwill in Equity Bank Congo S.A on acquisition.

Equity Bank Uganda Limited

The goodwill arose from the acquisition of Equity Bank Uganda Limited (formerly Uganda Microfinance Limited) in April 2008, which was determined in accordance with IFRS 3. It represents the difference between the total purchase consideration (including acquisition costs) paid to acquire 100% stake in Equity Bank Uganda Limited and the fair value of the net tangible assets and the separable identifiable intangible assets.

Equity BCDC

On 30 September 2015, Equity Group Holdings Plc acquired 79% of the net assets of Equity Bank Congo S.A (now merged with BCDC to form EquityBCDC).

The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of Equity Group Holdings Plc and Equity Bank Congo S.A, as well as Equity Bank Uganda Limited.

Notes (continued)

15 (b) Goodwill (continued)

Management carried out an impairment assessment in respect of goodwill at year end. Since the goodwill arose on purchase of Equity Bank Uganda Limited and Equity Bank Congo S.A as subsidiaries, the whole amount is allocated to the subsidiaries which the Group considers as a cash generating unit (CGU). The table below shows the various variables used in management's impairment assessment:

	Equity Bank Uganda Limited		EquityBCDC	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Value in use	86,432	58,068	80,560	31,169
Projected growth in net interest income – 2021	12%	44%	52%	38%
Projected growth in net interest income – 2022	28%	29%	66%	17%
Projected growth in non-interest income – 2021	48%	24%	73%	25%
Projected growth in non-interest income - 2022	28%	24%	16%	25%
Weighted average cost of capital	22%	20%	25%	26%

The 2021 actual growth for EquityBCDC varied from projected growths in 2020 due to the efficiencies achieved after the merger of BCDC and EBCL in 2020. Details of the merger are disclosed on note 15d.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions:

- Budgeted PAT – Budgeted PAT has been based on values achieved in the past five years adjusted for efficiencies expected from implementation of Group initiatives.
- Long term growth rate is based on projected GDP growth rate for each subsidiary.
- Weighted average cost of capital is the pre-tax risk adjusted discount rate based on the risk-free rate of government securities in the respective country adjusted for a risk premium to reflect the increased risk of investing in equities and the systemic risk of the specific Group operating company.
- An assumed terminal value based on a historical performance of the CGUs and Pre-tax risk adjusted discount rate.

Sensitivity analysis

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

15 (c) Acquisition of a subsidiary, Banque Commerciale Du Congo (BCDC)

On 7th August 2020, EGH Plc acquired 66.53% shareholding in BCDC (226,000 new shares) with a par value of US$ 100,000 from George Arthur Forrest, and obtained control of BCDC. The shares were acquired for a cash consideration of US$ 95 million (Shs 10.27 billion). The transaction was at a discount resulting in a bargain purchase gain of Shs 1.177 billion.

From the date of acquisition to 31 December 2020, BCDC contributed Shs 3,501 million of operating income and Shs 922 million to profit before tax, to the continuing operations of the Group. If the combination had taken place at the beginning of the year, the contribution of the Bank to the group's operating income from continuing operations would have been Shs 11,640 million and Shs 1,667 million to the Group's profit before tax from continuing operations.

The contribution to the Group and estimated revenues are based on certain assumptions and have been compiled for illustrative purposes only and because of its nature, it addresses a hypothetical situation and, therefore, does not represent and may not give a true picture of the financial position and financial performance of the Group.

Notes (continued)

15 (c) Acquisition of a subsidiary, Banque Commerciale Du Congo (BCDC) (continued)

(i) Net identifiable assets

	2020 Shs millions
Assets	
Cash balances and deposits in financial institutions	77,198
Loans and advances to customers	47,981
Property and equipment	5,783
Investment properties	5,075
Other assets	2,985
Intangible assets	2,179
Right-of-use assets	241
Total assets	141,442
Liabilities	
Customer deposits	(112,686)
Other liabilities	(8,647)
Employee benefits obligations	(1,854)
Current income tax	(473)
Lease liabilities	(271)
Deferred tax liabilities	(305)
Total liabilities	(124,236)
Total identifiable net assets at fair value	17,206
Non-controlling interest measured as share of net assets (33.47%)	(5,759)
Share of net identifiable assets at fair value (66.53%)	11,447

(ii) Bargain purchase gain

Share of net identifiable assets at fair value (66.53%)	11,447
Consideration paid	10,270
Bargain purchase gain	1,177

Notes (continued)

15 (c) Acquisition of a subsidiary, Banque Commerciale Du Congo (BCDC) (continued)

(iii) Valuation methodology

Core deposits

The fair value of the core deposit intangible was determined using the cost savings method. It's calculated as the after-tax present values of; (i) net cost of funding and; (ii) net service fees earned on deposits. Net cost of funding is the difference between interest expense on acquired low cost saving and demand deposit and cost of alternative funding over the useful life of the deposit.

Customer relationships

The fair value of customer relationships was valued using replacement cost method. The value is calculated as the estimated cost of acquiring new customers multiplied by the unique number of customers acquired in the transaction. This is adjusted with the profit mark up and opportunity cost.

Brand

The fair value of brand was determined using relief-from-royalty (RFR). The RFR method values the intangibles by reference to the amount the acquirer would pay in arm's length transaction. The royalty rate is applied to the estimated income stream attributable to the brand to determine the amount of royalty savings, which is then discounted at the applicable discount rate to arrive at the estimated fair value.

15 (d) Common control merger accounting – Equity Bank Congo S.A (EBC) and Banque Commerciale Du Congo (BCDC)

On 30th December 2020, Equity Group Holdings Plc (EGH Plc) received regulatory approval to merge EBC and BCDC to form a new bank - Equity Banque Commerciale du Congo (EquityBCDC). This follows EGH Plc's acquisition of 66.53% shareholding of BCDC from the family of George Forrest, combined with prior EGH Plc's 86.6% shareholding in EBC and an additional purchase in EBC's shareholding of 7.7% acquired from KFW during the year. Post-merger, EGH Plc holds 75.5% in EquityBCDC with the remainder being held by IFC, the Government of DRC and other minority shareholders.

Given that EBC and BCDC were under the common control of the EGH Plc, both before and after the acquisition, the acquisition by BCDC of EBC was a business combination under common control and accounted for using the principle of predecessor value method. Accordingly, the assets and liabilities of EBC acquired by the BCDC are stated at predecessor value. No amount was recognised as consideration for goodwill or bargain purchase at the time of common control combination.

Notes (continued)

16 Other operating expenses

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Software licencing and other IT related costs	5,001	4,398	-	-
Consultancy, legal and professional fees	1,964	1,655	113	306
Electricity, water and repairs and maintenance	1,483	1,265	-	-
Travel and accommodation	1,560	1,078	4	12
Marketing, advertising and sponsorship	1,272	1,274	2	3
Publications, stationery and communications	1,002	824	2	1
Lease expenses (Note 13)	158	377	-	4
Auditors' remuneration	69	62	2	2
Other expenses	9,777	6,073	68	429
	22,286	17,006	191	757

17 (a) Investment In subsidiary companies

	Country of incorporation	Shareholding	2021 Shs' millions	2020 Shs' millions
Banking				
Equity Bank (Kenya) Limited	Kenya	100%	40,733	40,733
EquityBCDC	DRC	77.5%	17,388	17,005
Equity Bank (South Sudan) Limited	South Sudan	100%	5,712	5,712
Equity Bank Uganda Limited	Uganda	100%	6,053	6,053
Equity Bank Tanzania Limited	Tanzania	100%	6,200	6,200
Equity Bank Rwanda PLC	Rwanda	100%	2,807	2,807
Telecommunication				
Finserve Africa Limited	Kenya	100%	1,001	1,001
Investment banking				
Equity Investment Bank Limited	Kenya	100%	420	420
Insurance				
Equity Group Insurance Holdings Limited	Kenya	100%	400	-
Insurance brokerage				
Equity Bancassurance Intermediary Limited (Formerly Insurance Agency Limited)	Kenya	100%	100	100
Consultancy				
Equity Consulting Group Limited	Kenya	100%	0.5	0.5
Equity Investment Services Limited	Kenya	100%	420	420
Custodial services				
Equity Nominees Limited	Kenya	100%	0.1	0.1
Total			81,235	80,452

Notes (continued)

17 (a) Investment In subsidiary companies

On 17 March 2020, additional capital of 226,000 new shares with a par value of TShs 100,000 was issued and paid by EGH Plc to Equity Bank Tanzania Limited for a consideration of US$ 22.5 million (Shs 2.36 billion).

On 17 March 2020, additional capital of 345,000 new shares with a par value of UShs 100,000 was issued and paid by EGH Plc to Equity Bank Uganda Limited for a consideration of US$ 10 million (Shs 1.05 billion).
On 13 July 2020, additional capital of US$ 1,253,710 (Shs 135 million) was injected in Equity Bank Congo S.A to establish an employee trust scheme as agreed in the share purchase agreement (125,371 shares with a par value of US$ 10).

On 27 November 2020, EGH Plc bought shares previously held by KfW in Equity Bank Congo S.A for a consideration of US$ 9,061,721 (Shs 996 million).

On 30 December 2021, EGH Plc received regulatory approval to acquire shares previously held by Equity Bank Congo S.A ESOP in EquityBCDC at a consideration of Shs 383 million, increasing EGH Plc's shareholding in EquityBCDC to 77.5% (2020; 75.5%)

On 28 July 2021, Equity Group Insurance Holdings Limited (EGHIL), a fully owned subsidiary of EGH Plc was incorporated with a share capital of Shs 400 million. The subsidiary will hold the insurance line of business for the Group.

The Company has assessed impairment of the investment in subsidiaries using the Net Asset Value (NAV) and Discounted Cash Flow (DCF) methods as appropriate and concluded there's no impairment.

17 (b) Non-controlling interests (NCI)

Set out below is the summarised financial information of EquityBCDC which has non-controlling interest that is material to the Group.

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
Summarised statement of financial position		
Total assets	419,796	285,083
Total liabilities	388,688	258,624
Equity	31,108	26,459
Accumulated NCI	7,023	6,465
Summarised statement of comprehensive income		
Operating income	18,694	9,679
Profit for the period	3,989	1,281
Other comprehensive income	(890)	-
Total comprehensive income	3,099	1,281
Profit allocated to NCI	897	310
Summarised statement of cash flows		
Cash flows from operating activities	94,006	30,395
Cash flows to investing activities	(20,437)	3,373
Cash flows from financing activities	4,351	1,451
Net increase in cash and cash equivalents	77,920	35,219

Notes (continued)

17 (c) Interests in unconsolidated structured entity (continued)

Equity Group Holdings Plc does not consolidate the results of Equity Group Foundation (the "Foundation") which was incorporated on 12 February 2008 under the Companies Act (Cap 486) as a company limited by guarantee. It is a charitable organization set up to provide a platform to development partners, government, the private sector as well as local and international organizations for the implementation of high impact development programs which include Wings to Fly Scholarship Program.

The programs of the Foundation are primarily funded by third party donors under donor agreements. The Group's contributions to the Foundation are both in monetary terms but mainly in-kind in the form of utilising the Group's extensive branch network and staff in driving the achievement of the goals/activities of the Foundation in communities. On the basis that the donors provide majority of the funding and direct the activities of the Foundation through the donor agreements, the Group does not control the Foundation. The table below summarises EGF's source of funding:

	Shs' millions 2021	Shs' millions 2020
Donors	3,755	2,150
Equity Group Holdings Plc	28	209
Total donations income	3,783	2,359

The Group does not earn income from EGF and is not exposed to loss arising from its involvement with the Foundation.

Consistent with previous years, the Group will continue providing support to the Foundation primarily as regards the use of the Group's branch network and staff to carry out its program activities.

18 Income tax

Recognised in profit or loss	**Group**		**Company**	
	2021 Shs' millions	**2020 Shs' millions**	**2021 Shs' millions**	**2020 Shs' millions**
Current income tax:				
Current year charge	11,486	9,811	161	61
Prior year understatement / (overstatement)	1	14	-	-
Deferred income tax (Note 23):				
Current year credit	322	(7,755)	(23)	(5)
Income tax expense	11,809	2,070	138	56

Where there's uncertainty in the tax treatment, the Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty. The Group did not have any significant area of uncertainty in the year.

The Group's tax related contingencies are disclosed in Note 31.

Notes (continued)

18 Income tax (continued)

Reconciliation of effective tax rate:

The tax on the Group's and Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Profit before income tax	51,881	22,170	8,439	215
Income tax using the enacted corporation tax rate	15,564	5,543	2,532	54
The effect of differential tax rate in South Sudan (20% (2020: 20%))	33	53	-	-
Prior year understatement	1	14	-	-
Income not subject to tax	(3,941)	(2,267)	(2,611)	2
Impact of use of different deferred tax rate	-	(1,239)	-	-
Other differences	152	(34)	217	-
	11,809	2,070	138	56

Current income tax liability/ (asset)

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
At start of year	1,362	1,776	(54)	(37)
Acquisition of a subsidiary	-	473	-	-
Charge for the year	11,486	9,811	161	61
Prior year understatement	1	14	-	-
Translation differences	(290)	(319)	-	-
Paid during the year	(12,196)	(10,393)	(45)	(78)
At end of year	363	1,362	62	(54)
Made up of:				
Tax payable	925	1,641	62	-
Tax recoverable	(562)	(279)	-	(54)
	363	1,362	62	(54)

Notes (continued)

18 Income tax (continued)

Tax rates are as follows:

31 December 2021	Group Shs' millions	EGH Plc Shs' millions	EBKL Shs' millions	EBUL Shs' millions	EquityBCDC Shs' millions	EBRPLC Shs' millions	EIAL Shs' millions	EBTL Shs' millions	EBSSL Shs' millions	Others* Shs' millions
Profit before tax	51,881	8,439	41,042	3,614	4,924	1,978	931	138	(327)	627
Enacted tax rate	30%	30%	30%	30%	30%	30%	30%	30%	25%	30%
Income tax using the enacted corporation tax rate	15,564	2,532	12,313	1,084	1,477	593	279	41	(82)	188
31 December 2020										
Profit before tax	22,170	215	14,207	2,311	1,619	1,676	592	(426)	1,067	338
Enacted tax rate	25%	25%	25%	30%	30%	30%	30%	30%	20%	25%
Income tax using the enacted corporation tax rate	5,543	54	3,552	693	486	503	178	(128)	213	85

EGH Plc – Equity Group Holdings Plc, EBKL – Equity Bank Kenya Limited, EBUL – Equity Bank Uganda Limited, EBRPLC – Equity Bank Rwanda PLC, EIAL – Equity Insurance Agency Limited, EBTL – Equity Bank Tanzania Limited, EBSSL – Equity Bank South Sudan Limited, EquityBCDC – Equity Banque Commerciale Du Congo.

*Others relate to Equity Investment Bank Limited, Finserve Africa Limited, Equity Nominees Limited, Equity Investment Services Limited and Equity Consulting Group Limited.

Notes (continued)

19 (a) Cash, deposits and balances due from financial institutions

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Cash in hand	62,738	53,524	-	-
Unrestricted balances with central banks	498	23,829	-	-
Money market placements	70,005	94,562	-	-
Cash balances with banks	57,590	55,508	11,105	8,821
	190,831	227,423	11,105	8,821
12-month ECL:				
At 1 January	(511)	(159)	(3)	(3)
Re-measurement during the year	(146)	(352)	1	-
Translation differences	191	-	-	-
At 31 December	(466)	(511)	(2)	(3)
Included in cash and cash equivalents	190,365	226,912	11,103	8,818
Restricted balances with central banks	52,417	20,181	-	-
Net carrying amount	242,782	247,093	11,103	8,818
Movement in restricted balances:				
At start of year	20,181	15,654	-	-
Movement during the year	32,236	4,527	-	-
At end of year	52,417	20,181	-	-

The restricted funds with the central banks in Kenya, Uganda, Tanzania, Rwanda, South Sudan and Democratic Republic of Congo are not interest earning and are based on the value of deposits as adjusted by central banks' requirements from time to time. These funds (restricted balances with central banks) are not available for use by the Group in its day-to-day operations.

Notes (continued)

19 (b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Group	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Cash and cash equivalents (Note 19(a))	190,365	226,912	11,103	8,818
Liquid investments:				
FVOCI and FVTPL investment securities (Note 21)	380,395	201,564	-	-
Borrowed funds - repayable within one year (Note 26)	(19,363)	(23,779)	-	-
Borrowed funds - repayable after one year (Note 26)	(108,977)	(73,369)	(11,461)	(10,938)
Lease liabilities (Note 14 (c))	(8,900)	(6,688)	-	-
Net cash	433,520	324,640	(358)	(2,120)
Cash and liquid investments	570,760	428,476	11,103	8,818
Gross debt - fixed interest rates	(47,311)	(17,838)	-	-
Gross debt - variable interest rates	(89,929)	(85,998)	(11,461)	(10,938)
	433,520	324,640	(358)	(2,120)

20 Loans and advances to customers

	2021 Shs' millions	2020 Shs' millions
Loans and advances at amortised cost	586,470	476,581
Loans and advances at fair value through profit or loss	1,305	1,266
	587,775	477,847

a) Loans and advances at amortised cost

At 31 December 2021	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total Shs' Millions
Gross loans and advances	495,302	85,705	51,905	632,912
Loss allowance	(4,684)	(7,778)	(33,980)	(46,442)
Net loans and advances	490,618	77,927	17,925	586,470

Notes (continued)

20 Loans and advances to customers (continued)

(a) Loans and advances at amortised cost (continued)

At 31 December 2020	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total Shs' millions
Gross loans and advances	393,416	72,710	58,459	524,585
Loss allowance	(4,376)	(8,748)	(34,880)	(48,004)
Net loans and advances	389,040	63,962	23,579	476,581

	Gross		Net	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Current portion	292,289	126,241	270,841	123,293
Non-current portion	340,623	398,344	315,629	353,288
	632,912	524,585	586,470	476,581

(b) Impairment on financial assets

	2021			
	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total ECL Shs' millions
Loss allowance as at 1 January	4,376	8,748	34,880	48,004
Transfer to 12 months ECL	3,309	(2,986)	(323)	-
Transfer to lifetime ECL not credit impaired	(167)	3,853	(3,686)	-
Transfer to lifetime ECL credit impaired	(1,264)	(359)	1,623	-
Net remeasurement	(2,514)	(1,391)	6,870	2,965
Net financial assets originated	2,278	549	2,001	4,828
Financial assets derecognised	(1,390)	(692)	(414)	(2,496)
Translation differences	56	56	310	422
	308	(970)	6,381	5,719
Write offs	-	-	(7,281)	(7,281)
Loss allowance as at 31 December	4,684	7,778	33,980	46,442

Notes (continued)

20 Loans and advances to customers (continued)

(b) Impairment on financial assets (continued)

	2020			
	Stage 1 12-month ECL Shs' millions	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**
Loss allowance as at 1 January	4,773	3,929	14,033	22,735
Acquisition of a subsidiary	559	260	2,548	3,367
	5,332	4,189	16,581	26,102
Transfer to 12 months ECL	484	(369)	(115)	-
Transfer to lifetime ECL not credit impaired	(392)	687	(295)	-
Transfer to lifetime ECL credit impaired	(1,789)	(1,430)	3,219	-
Net remeasurement	963	2,600	11,218	14,781
Net financial assets originated	1,648	3,700	8,938	14,286
Financial assets derecognised	(1,077)	(603)	(3,763)	(5,443)
Translation differences	(793)	(26)	212	(607)
	(956)	4,559	19,414	23,017
Write offs	-	-	(1,115)	(1,115)
Loss allowance as at 31 December	4,376	8,748	34,880	48,004

Notes (continued)

20 Loans and advances to customers (continued)

(b) Impairment on financial assets (continued)

	2021			
	Stage 1 12-month ECL Shs' millions	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**
Gross carrying amount as at 1 January	393,416	72,710	58,459	524,585
Movements during the year:				
Transfer to 12 months ECL	21,010	(18,976)	(2,034)	-
Transfer to lifetime ECL not credit impaired	(26,344)	34,660	(8,316)	-
Transfer to lifetime ECL credit impaired	(7,526)	(4,630)	12,156	-
Net remeasurement	(26,377)	(555)	(2,117)	(29,049)
Net financial assets originated	245,858	12,092	5,303	263,253
Financial assets derecognised	(110,953)	(10,487)	(14,890)	(136,330)
Translation differences	6,218	891	3,344	10,453
Gross carrying amount as at 31 December	495,302	85,705	51,905	632,912

	2020			
	Stage 1 12-month ECL Shs' millions	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**
Gross carrying amount as at 1 January	313,002	37,397	34,709	385,108
Acquisition of a subsidiary	36,567	10,629	4,152	51,348
Movements during the year:				
Transfer to 12 months ECL	11,695	(10,312)	(1,383)	-
Transfer to lifetime ECL not credit impaired	(27,409)	28,437	(1,028)	-
Transfer to lifetime ECL credit impaired	(7,237)	(10,755)	17,992	-
Net remeasurement	(5,883)	3,994	(4,108)	(5,997)
Net financial assets originated	147,788	20,082	19,095	186,965
Financial assets derecognised	(78,401)	(7,104)	(11,337)	(96,842)
Translation differences	3,294	342	367	4,003
Gross carrying amount as at 31 December	393,416	72,710	58,459	524,585

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector

31 December 2021	Building and construction				Energy and water				Financial services			
	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Stage 1 12-month ECL Shs' millions	Stage 2 Lifetime ECL Shs' millions	Stage 3 Lifetime ECL Shs' millions	Total Shs' millions
Gross carrying amount as at 1 January	6,508	2,971	4,928	**14,407**	18,379	4,997	5,844	**29,220**	16,407	1,938	3,216	**21,561**
Transfer to 12 months ECL	641	(837)	196	-	22	(22)	-	-	161	(209)	48	-
Transfer to Lifetime ECL not credit impaired	(199)	910	(711)	-	(396)	1,220	(824)	-	(434)	342	92	-
Transfer to Lifetime ECL credit impaired	(489)	(18)	507	-	(47)	(277)	324	-	(1,307)	(91)	1,398	-
Net remeasurement	(653)	198	207	**(248)**	2,518	(1,760)	2,884	**3,642**	(4,770)	(121)	(3,918)	**(8,809)**
Net financial assets originated	6,006	417	261	**6,684**	11,301	-	-	**11,301**	25,911	783	158	**26,852**
Financial assets derecognised	(5,184)	(734)	(242)	**(6,160)**	(2,378)	(254)	(1,498)	**(4,130)**	(9,178)	(366)	(276)	**(9,820)**
Translation differences	3,553	(41)	(287)	**3,225**	584	254	812	**1,650**	9,153	387	380	**9,920**
Gross carrying amount as at 31 December	10,183	2,866	4,859	**17,908**	29,983	4,158	7,542	**41,683**	35,943	2,663	1,098	**39,704**
Loss allowance as at 1 January	76	194	2,591	**2,861**	56	1,273	4,434	**5,763**	161	105	2,957	**3,223**
Transfer to 12 months ECL	22	(25)	3	-	1	(1)	-	-	2	(14)	12	-
Transfer to Lifetime ECL not credit impaired	(4)	480	(476)	-	(1)	19	(18)	-	(10)	18	(8)	-
Transfer to Lifetime ECL credit impaired	(13)	(18)	31	-	(1)	(9)	10	-	(21)	(3)	24	-
Net remeasurement of loss allowance	(6)	(316)	623	**301**	137	(112)	3,154	**3,179**	(73)	(43)	(2,698)	**(2,814)**
Net financial assets originated	109	15	78	**202**	102	-	-	**102**	241	26	36	**303**
Financial assets derecognised	(104)	(78)	149	**(33)**	(23)	(10)	(38)	**(71)**	(136)	(17)	(203)	**(356)**
Write offs	-	-	(118)	**(118)**	-	-	(16)	**(16)**	-	-	(4)	**(4)**
Translation differences	132	12	(58)	**86**	32	(3)	12	**41**	166	15	640	**821**
Loss allowance as at 31 December	212	264	2,823	**3,299**	303	1,157	7,538	**8,998**	330	87	756	**1,173**
Net loans and advances	9,971	2,602	2,036	**14,609**	29,680	3,001	4	**32,685**	35,613	2,576	342	**38,531**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector (continued)

	Food and agriculture				ICT and Telecommunication				Manufacturing			
31 December 2021	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**
Gross carrying amount as at 1 January	19,096	6,872	1,854	**27,822**	3,323	60	247	**3,630**	6,863	6,342	6,196	**19,401**
Transfer to 12 months ECL	518	(513)	(5)	-	6	(6)	-	-	191	(285)	94	-
Transfer to Lifetime ECL not credit impaired	(1,403)	1,643	(240)	-	-	-	-	-	(459)	4,805	(4,346)	-
Transfer to Lifetime ECL credit impaired	(393)	(640)	1,033	-	-	-	-	-	(31)	(481)	512	-
Net remeasurement	(2,169)	(4,138)	(114)	**(6,421)**	(143)	(1)	(216)	**(360)**	(689)	1,009	4	**324**
Net financial assets originated	13,339	2,794	1,148	**17,281**	1,120	-	-	**1,120**	4,123	1,138	16	**5,277**
Financial assets derecognised	(11,065)	(1,639)	(602)	**(13,306)**	(447)	(24)	(8)	**(479)**	(1,415)	(1,252)	(125)	**(2,792)**
Translation differences	336	71	106	**513**	(2,307)	(26)	(23)	**(2,356)**	1,630	(90)	42	**1,582**
Gross carrying amount as at 31 December	18,259	4,450	3,180	**25,889**	1,552	3	-	**1,555**	10,213	11,186	2,393	**23,792**
Loss allowance as at 1 January	152	2,513	560	**3,225**	12	12	154	**178**	4	87	4,066	**4,157**
Transfer to 12 months ECL	29	(29)	-	-	-	-	-	-	2	(4)	2	-
Transfer to Lifetime ECL not credit impaired	(11)	133	(122)	-	-	-	-	-	-	2,368	(2,368)	-
Transfer to Lifetime ECL credit impaired	(8)	(52)	60	-	-	-	-	-	-	(35)	35	-
Net remeasurement of loss allowance	(48)	(2,321)	269	**(2,100)**	(2)	(3)	(2)	**(7)**	(26)	(1,877)	429	**(1,474)**
Net financial assets originated	128	131	110	**369**	(1)	(1)	(134)	**(136)**	59	32	9	**100**
Financial assets derecognised	(114)	(99)	63	**(150)**	3	-	-	**3**	(27)	(18)	87	**42**
Write offs	-	-	(182)	**(182)**	-	-	-	-	-	-	(90)	**(90)**
Translation differences	33	1	65	**99**	(5)	(8)	(18)	**(31)**	97	34	(14)	**117**
Loss allowance as at 31 December	161	277	823	**1,261**	7	-	-	**7**	109	587	2,156	**2,852**
Net loans and advances	18,098	4,173	2,357	**24,628**	1,545	3	-	**1,548**	10,104	10,599	237	**20,940**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector (continued)

31 December 2021	Mining and quarrying Stage 1 12-month ECL Shs' millions	Mining and quarrying Stage 2 Lifetime ECL Shs' millions	Mining and quarrying Stage 3 Lifetime ECL Shs' millions	Mining and quarrying Total Shs' millions	Personal household Stage 1 12-month ECL Shs' millions	Personal household Stage 2 Lifetime ECL Shs' millions	Personal household Stage 3 Lifetime ECL Shs' millions	Personal household Total Shs' millions	Real estate Stage 1 12-month ECL Shs' millions	Real estate Stage 2 Lifetime ECL Shs' millions	Real estate Stage 3 Lifetime ECL Shs' millions	Real estate Total Shs' millions
Gross carrying amount as at 1 January	16,402	34	1,754	**18,190**	123,746	5,606	7,038	**136,390**	63,937	12,319	9,979	**86,235**
Transfer to 12 months ECL	1,251	-	(1,251)	-	2,602	(2,415)	(187)	-	5,950	(5,797)	(153)	-
Transfer to Lifetime ECL not credit impaired	(3,044)	3,044	-	-	(1,129)	1,297	(168)	-	(6,893)	8,252	(1,359)	-
Transfer to Lifetime ECL credit impaired	(7)	(1)	8	-	(1,203)	(526)	1,729	-	(1,295)	(405)	1,700	-
Net remeasurement	919	157	(1,560)	**(484)**	(12,008)	(264)	(16)	**(12,288)**	4,524	(774)	(385)	**3,365**
Net financial assets originated	7,511	272	2	**7,785**	80,735	1,180	1,292	**83,207**	17,834	965	242	**19,041**
Financial assets derecognised	(6,070)	-	(120)	**(6,190)**	(38,142)	(1,615)	(3,921)	**(43,678)**	(6,117)	(1,042)	(1,676)	**(8,835)**
Translation differences	4,123	(3)	1,223	**5,343**	(19,745)	(556)	(1,208)	**(21,509)**	1,302	90	425	**1,817**
Gross carrying amount as at 31 December	21,085	3,503	56	**24,644**	134,856	2,707	4,559	**142,122**	79,242	13,608	8,773	**101,623**
Loss allowance as at 1 January	1,740	-	1,122	**2,862**	611	674	3,952	**5,237**	377	913	5,467	**6,757**
Transfer to 12 months ECL	1	-	(1)	-	186	(69)	(117)	-	346	(261)	(85)	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-	(12)	78	(66)	-	(39)	453	(414)	-
Transfer to Lifetime ECL credit impaired	(257)	252	5	-	(13)	(324)	337	-	(5)	(48)	53	-
Net remeasurement of loss allowance	(101)	63	37	**(1)**	(305)	96	458	**249**	(333)	11	883	**561**
Net financial assets originated	4	8	2	**14**	655	80	699	**1,434**	99	39	34	**172**
Financial assets derecognised	(15)	-	(42)	**(57)**	(392)	(158)	916	**366**	(33)	(66)	188	**89**
Write offs	-	-	-	-	-	-	(3,419)	**(3,419)**	-	-	(1,076)	**(1,076)**
Translation differences	(1,354)	-	(1,072)	**(2,426)**	295	(169)	(629)	**(503)**	15	2	91	**108**
Loss allowance as at 31 December	18	323	51	**392**	**1,025**	208	2,131	**3,364**	427	1,043	5,141	**6,611**
Net loans and advances	21,067	3,180	5	**24,252**	133,831	2,499	2,428	**138,758**	78,815	12,565	3,632	**95,012**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector (continued)

31 December 2021	Tourism and hospitality Stage 1 12-month ECL Shs' millions	Tourism and hospitality Stage 2 Lifetime ECL Shs' millions	Tourism and hospitality Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Trade Stage 1 12-month ECL Shs' millions	Trade Stage 2 Lifetime ECL Shs' millions	Trade Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Transport and logistics Stage 1 12-month ECL Shs' millions	Transport and logistics Stage 2 Lifetime ECL Shs' millions	Transport and logistics Stage 3 Lifetime ECL Shs' millions	Total Shs' millions
Gross carrying amount as at 1 January	9,797	14,057	1,465	**25,319**	89,183	11,986	9,189	**110,358**	19,775	5,528	6,749	**32,052**
Transfer to 12 months ECL	(1,547)	1,649	(102)	-	7,029	(6,418)	(611)	-	4,186	(4,123)	(63)	-
Transfer to Lifetime ECL not credit impaired	(2,833)	3,652	(819)	-	(6,230)	6,176	54	-	(3,324)	3,319	5	-
Transfer to Lifetime ECL credit impaired	(52)	765	(713)	-	(2,342)	(2,029)	4,371	-	(360)	(927)	1,287	-
Net remeasurement	(1,429)	(2,811)	1,212	**(3,028)**	(14,424)	7,128	2,021	**(5,275)**	1,947	822	(2,236)	533
Net financial assets originated	509	503	53	**1,065**	64,529	3,075	2,047	**69,651**	12,940	965	84	13,989
Financial assets derecognised	(246)	(178)	(129)	**(553)**	(26,324)	(2,675)	(4,199)	**(33,198)**	(4,387)	(708)	(2,094)	(7,189)
Translation differences	(1,083)	31	38	**(1,014)**	10,828	630	1,710	**13,168**	(2,156)	144	126	(1,886)
Gross carrying amount as at 31 December	3,116	17,668	1,005	**21,789**	122,249	17,873	14,582	**154,704**	28,621	5,020	3,858	**37,499**
Loss allowance as at 1 January	100	1,800	328	**2,228**	914	728	4,419	**6,061**	173	449	4,830	**5,452**
Transfer to 12 months ECL	76	(55)	(21)	-	2,535	(2,455)	(80)	-	109	(73)	(36)	-
Transfer to Lifetime ECL not credit impaired	(46)	116	(70)	-	(34)	178	(144)	-	(10)	10	-	-
Transfer to Lifetime ECL credit impaired	-	(8)	8	-	(880)	(109)	989	-	(66)	(5)	71	-
Net remeasurement of loss allowance	(41)	(57)	488	**390**	(1,616)	3,202	4,359	**5,945**	(100)	(34)	(1,130)	**(1,264)**
Net financial assets originated	6	15	-	**21**	748	155	1,026	**1,929**	128	49	141	**318**
Financial assets derecognised	(1)	(15)	(85)	**(101)**	(497)	(190)	(1,204)	**(1,891)**	(51)	(41)	(245)	**(337)**
Write offs	-	-	(3)	**(3)**	-	-	(1,273)	**(1,273)**	-	-	(1,100)	**(1,100)**
Translation differences	(30)	5	10	**(15)**	563	97	1,451	**2,111**	112	70	(168)	**14**
Loss allowance as at 31 December	64	1,801	655	**2,520**	1,733	1,606	9,543	**12,882**	295	424	2,363	**3,083**
Net loans and advances	3,052	15,867	350	**19,269**	120,516	16,267	5,039	**141,822**	28,326	4,595	1,495	**34,416**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector

	Building and construction				Energy and water				Financial services			
31 December 2020	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**	**Stage 1 12-month ECL Shs' millions**	**Stage 2 Lifetime ECL Shs' millions**	**Stage 3 Lifetime ECL Shs' millions**	**Total Shs' millions**
Gross carrying amount as at 1 January	6,555	1,327	4,225	**12,107**	11,284	7,763	1,496	**20,543**	8,685	1,570	2,909	**13,164**
Acquisition of a subsidiary	944	409	7	**1,360**	1,021	4,482	30	**5,533**	-	-	107	**107**
Transfer to 12 months ECL	61	(53)	(8)	-	2,541	(2,541)	-	-	282	(14)	(268)	-
Transfer to Lifetime ECL not credit impaired	(1,179)	1,205	(26)	-	(17)	17	-	-	(78)	78	-	-
Transfer to Lifetime ECL credit impaired	(604)	(83)	687	-	-	(5,697)	5,697	-	(15)	(16)	31	-
Net remeasurement	3	124	(130)	**(3)**	774	453	(171)	**1,056**	1,147	166	189	**1,502**
Net financial assets originated	2,387	358	1,901	**4,646**	3,597	456	-	**4,053**	8,227	1,852	277	**10,356**
Financial assets derecognised	(1,729)	(328)	(1,772)	**(3,829)**	(939)	(7)	(1,224)	**(2,170)**	(1,932)	(1,712)	(60)	**(3,704)**
Translation differences	70	12	44	**126**	118	71	16	**205**	91	14	31	**136**
Gross carrying amount as at 31 December	6,508	2,971	4,928	**14,407**	18,379	4,997	5,844	**29,220**	16,407	1,938	3,216	**21,561**
Loss allowance as at 1 January	88	130	2,024	**2,242**	79	1,833	766	**2,678**	138	55	2,353	**2,546**
Acquisition of a subsidiary	42	54	6	**102**	3	26	25	**54**	-	-	92	**92**
Transfer to 12 months ECL	13	(11)	(2)	-	7	(7)	-	-	1	(1)	-	-
Transfer to Lifetime ECL not credit impaired	(12)	12	-	-	-	-	-	-	(1)	1	-	-
Transfer to Lifetime ECL credit impaired	(9)	(10)	19	-	-	(1,157)	1,157	-	-	(2)	2	-
Net remeasurement of loss allowance	(70)	1	865	**796**	(31)	582	3,183	**3,734**	(34)	14	504	**484**
Net financial assets originated	57	55	605	**717**	16	10	-	**26**	104	103	181	**388**
Financial assets derecognised	(18)	(36)	(957)	**(1,011)**	(5)	-	(192)	**(197)**	(23)	(65)	(211)	**(299)**
Write offs	-	-	-	-	-	-	(517)	**(517)**	-	-	-	-
Translation differences	(15)	(1)	31	**15**	(13)	(14)	12	**(15)**	(24)	-	36	**12**
Loss allowance as at 31 December	76	194	2,591	**2,861**	56	1,273	4,434	**5,763**	161	105	2,957	**3,223**
Net loans and advances	6,432	2,777	2,337	**11,546**	18,323	3,724	1,410	**23,457**	16,246	1,833	259	**18,338**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector (continued)

31 December 2020	Food and agriculture Stage 1 12-month ECL Shs' millions	Food and agriculture Stage 2 Lifetime ECL Shs' millions	Food and agriculture Stage 3 Lifetime ECL Shs' millions	Food and agriculture Total Shs' millions	ICT and Telecommunication Stage 1 12-month ECL Shs' millions	ICT and Telecommunication Stage 2 Lifetime ECL Shs' millions	ICT and Telecommunication Stage 3 Lifetime ECL Shs' millions	ICT and Telecommunication Total Shs' millions	Manufacturing Stage 1 12-month ECL Shs' millions	Manufacturing Stage 2 Lifetime ECL Shs' millions	Manufacturing Stage 3 Lifetime ECL Shs' millions	Manufacturing Total Shs' millions
Gross carrying amount as at 1 January	19,318	1,336	1,573	**22,227**	1,073	126	148	**1,347**	10,017	2,859	333	**13,209**
Acquisition of a subsidiary	183	-	5	**188**	1,766	9	-	**1,775**	2,835	575	1	**3,411**
Transfer to 12 months ECL	387	(318)	(69)	-	-	-	-	-	539	(493)	(46)	-
Transfer to Lifetime ECL not credit impaired	(2,051)	2,136	(85)	-	(49)	49	-	-	(2,021)	2,115	(94)	-
Transfer to Lifetime ECL credit impaired	(354)	(172)	526	-	(21)	(102)	123	-	(125)	(1,761)	1,886	-
Net remeasurement	(692)	96	(33)	**(629)**	501	12	(42)	**471**	(531)	669	(367)	**(229)**
Net financial assets originated	11,934	4,032	38	**16,004**	214	11	22	**247**	1,263	2,371	4,479	**8,113**
Financial assets derecognised	(9,832)	(250)	(118)	**(10,200)**	(172)	(46)	(6)	**(224)**	(5,219)	(19)	(2)	**(5,240)**
Translation differences	203	12	17	**232**	11	1	2	**14**	105	26	6	**137**
Gross carrying amount as at 31 December	19,096	6,872	1,854	**27,822**	3,323	60	247	**3,630**	6,863	6,342	6,196	**19,401**
Loss allowance as at 1 January	361	59	358	**778**	15	5	45	**65**	250	107	14	**371**
Acquisition of a subsidiary	-	-	5	**5**	5	3	-	**8**	6	1	1	**8**
Transfer to 12 months ECL	4	(3)	(1)	-	-	-	-	-	34	(34)	-	-
Transfer to Lifetime ECL not credit impaired	(10)	45	(35)	-	(7)	7	-	-	(10)	15	(5)	-
Transfer to Lifetime ECL credit impaired	(3)	(9)	12	-	-	(5)	5	-	(15)	(40)	55	-
Net remeasurement of loss allowance	(120)	75	284	**239**	(2)	5	98	**101**	(113)	(19)	1,622	**1,490**
Net financial assets originated	110	2,362	14	**2,486**	4	2	8	**14**	18	57	2,379	**2,454**
Financial assets derecognised	(130)	(16)	(82)	**(228)**	(1)	(5)	(2)	**(8)**	(124)	-	-	**(124)**
Write offs	-	-	-	-	-	-	-	-	-	-	-	-
Translation differences	(60)	-	5	**(55)**	(2)	-	-	**(2)**	(42)	-	-	**(42)**
Loss allowance as at 31 December	152	2,513	560	**3,225**	12	12	154	**178**	4	87	4,066	**4,157**
Net loans and advances	18,944	4,359	1,294	**24,597**	3,311	48	93	**3,452**	6,859	6,255	2,130	**15,244**

Notes (continued)

20 Loans and advances to customers (continued)

(c) Movements per sector (continued)

31 December 2020	Mining and quarrying Stage 1 12-month ECL Shs' millions	Mining and quarrying Stage 2 Lifetime ECL Shs' millions	Mining and quarrying Stage 3 Lifetime ECL Shs' millions	Mining and quarrying Total Shs' millions	Personal household Stage 1 12-month ECL Shs' millions	Personal household Stage 2 Lifetime ECL Shs' millions	Personal household Stage 3 Lifetime ECL Shs' millions	Personal household Total Shs' millions	Real estate Stage 1 12-month ECL Shs' millions	Real estate Stage 2 Lifetime ECL Shs' millions	Real estate Stage 3 Lifetime ECL Shs' millions	Real estate Total Shs' millions
Gross carrying amount as at 1 January	12,504	44	357	**12,905**	85,682	2,122	4,632	**92,436**	59,986	6,888	6,995	**73,869**
Acquisition of a subsidiary	3,809	3	-	**3,812**	19,662	3,861	3,704	**27,227**	139	-	-	**139**
Transfer to 12 months ECL	22	(22)	-	-	4,537	(3,846)	(691)	-	1,356	(1,299)	(57)	-
Transfer to Lifetime ECL not credit impaired	(3)	3	-	-	(3,360)	3,555	(195)	-	(5,501)	5,872	(371)	-
Transfer to Lifetime ECL credit impaired	(2,597)	-	2,597	-	(1,705)	(615)	2,320	-	(140)	(1,450)	1,590	-
Net remeasurement	1,607	6	(862)	**751**	(5,101)	(554)	(1,160)	**(6,815)**	(150)	1,546	(434)	**962**
Net financial assets originated	950	-	-	**950**	56,879	2,092	897	**59,868**	12,983	1,101	2,712	**16,796**
Financial assets derecognised	(22)	-	(342)	**(364)**	(33,750)	(1,028)	(2,518)	**(37,296)**	(5,367)	(402)	(530)	**(6,299)**
Translation differences	132	-	4	**136**	902	19	49	**970**	631	63	74	**768**
Gross carrying amount as at 31 December	16,402	34	1,754	**18,190**	123,746	5,606	7,038	**136,390**	63,937	12,319	9,979	**86,235**
Loss allowance as at 1 January	244	1	-	**245**	1,642	205	2,781	**4,628**	549	285	1,608	**2,442**
Acquisition of a subsidiary	45	-	-	**45**	403	146	2,164	**2,713**	3	-	-	**3**
Transfer to 12 months ECL	1	(1)	-	-	201	(118)	(83)	-	156	(144)	(12)	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-	(99)	200	(101)	-	(44)	170	(126)	-
Transfer to Lifetime ECL credit impaired	(1,211)	-	1,211	-	(444)	(82)	526	-	-	(61)	61	-
Net remeasurement of loss allowance	2,638	-	(89)	**2,549**	(973)	134	254	**(585)**	(278)	650	2,667	**3,039**
Net financial assets originated	64	-	-	**64**	542	252	413	**1,207**	105	30	1,463	**1,598**
Financial assets derecognised	-	-	-	-	(389)	(61)	(1,496)	**(1,946)**	(22)	(15)	(212)	**(249)**
Write offs	-	-	-	-	-	-	(548)	**(548)**	-	-	(7)	**(7)**
Translation differences	(41)	-	-	**(41)**	(272)	(2)	42	**(232)**	(92)	(2)	25	**(69)**
Loss allowance as at 31 December	1,740	-	1,122	**2,862**	611	674	3,952	**5,237**	377	913	5,467	**6,757**
Net loans and advances	14,662	34	632	**15,328**	123,135	4,932	3,086	**131,153**	63,560	11,406	4,512	**79,478**

Notes (continued)
20 Loans and advances to customers (continued)
(c) Movements per sector (continued)

31 December 2020	Tourism and hospitality Stage 1 12-month ECL Shs' millions	Tourism and hospitality Stage 2 Lifetime ECL Shs' millions	Tourism and hospitality Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Trade Stage 1 12-month ECL Shs' millions	Trade Stage 2 Lifetime ECL Shs' millions	Trade Stage 3 Lifetime ECL Shs' millions	Total Shs' millions	Transport and logistics Stage 1 12-month ECL Shs' millions	Transport and logistics Stage 2 Lifetime ECL Shs' millions	Transport and logistics Stage 3 Lifetime ECL Shs' millions	Total Shs' millions
Gross carrying amount as at 1 January	9,834	9,121	370	**19,325**	71,636	3,605	8,715	**83,956**	16,428	636	2,956	**20,020**
Acquisition of a subsidiary	1	-	-	**1**	4,360	1,286	255	**5,901**	1,847	4	43	**1,894**
Transfer to 12 months ECL	16	(12)	(4)	-	1,653	(1,500)	(153)	-	301	(214)	(87)	-
Transfer to Lifetime ECL not credit impaired	(1,361)	1,361	-	-	(7,889)	8,089	(200)	-	(3,900)	3,957	(57)	-
Transfer to Lifetime ECL credit impaired	(204)	(82)	286	-	(1,366)	(685)	2,051	-	(106)	(92)	198	-
Net remeasurement	(156)	1,949	7	**1,800**	(4,625)	(618)	(746)	**(5,989)**	1,340	145	(359)	**1,126**
Net financial assets originated	3,503	3,337	873	**7,713**	40,314	3,046	3,022	**46,382**	5,537	1,426	4,874	**11,837**
Financial assets derecognised	(1,940)	(1,700)	(71)	**(3,711)**	(15,653)	(1,270)	(3,847)	**(20,770)**	(1,846)	(342)	(847)	**(3,035)**
Translation differences	104	83	4	**191**	753	33	92	**878**	174	8	28	**210**
Gross carrying amount as at 31 December	9,797	14,057	1,465	**25,319**	89,183	11,986	9,189	**110,358**	19,775	5,528	6,749	**32,052**
Loss allowance as at 1 January	95	959	87	**1,141**	1,058	247	3,138	**4,443**	254	43	859	**1,156**
Acquisition of a subsidiary	-	-	-	-	47	30	218	**295**	5	-	37	**42**
Transfer to 12 months ECL	1	-	(1)	-	55	(40)	(15)	-	11	(10)	(1)	-
Transfer to Lifetime ECL not credit impaired	(30)	30	-	-	(98)	123	(25)	-	(81)	84	(3)	-
Transfer to Lifetime ECL credit impaired	(9)	(3)	12	-	(89)	(54)	143	-	(9)	(7)	16	-
Net remeasurement of loss allowance	22	541	126	**689**	(102)	272	1,135	**1,305**	26	345	569	**940**
Net financial assets originated	52	528	110	**690**	475	224	384	**1,083**	101	77	3,381	**3,559**
Financial assets derecognised	(15)	(248)	(7)	**(270)**	(256)	(74)	(564)	**(894)**	(94)	(83)	(40)	**(217)**
Write offs	-	-	-	-	-	-	(43)	**(43)**	-	-	-	-
Translation differences	(16)	(7)	1	**(22)**	(176)	-	48	**(128)**	(40)	-	12	**(28)**
Loss allowance as at 31 December	100	1,800	328	**2,228**	914	728	4,419	**6,061**	173	449	4,830	**5,452**
Net loans and advances	9,697	12,257	1,137	**23,091**	88,269	11,258	4,770	**104,297**	19,602	5,079	1,919	**26,600**

Notes (continued)

20 Loans and advances to customers (continued)

(c) Movement per sector (continued)

The terms and conditions normally provided for the loans and advances to customers are as follows:

Retail loans – Retail loans are comprised of consumer loans, micro-enterprises and agriculture. These are interest bearing facilities to retail customers. Collateral is required except for scheme loans to salaried customers. On average, the contractual tenor is between 6 months and 5 years. These loans are charged processing fees.

Corporate loans - Consist of small and medium enterprises and large enterprises - These are loans to small medium and large customers and they are all interest bearing. Collateral is a requirement for all facilities. The contractual tenor is between 6 months and 10 years. These loans are charged processing fees.

Overdrafts - These are short-term facilities to customers with urgent need of cash. Collateral is required for all these facilities and the tenor is 6 to 12 months. The only charge on these facilities is the overdraft arrangement fee.

(d) Financial asset at fair value through profit or loss

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
Loan note	5,672	5,505
Fair value loss	(4,367)	(4,239)
Non-current	1,305	1,266
Movement in fair value loss:		
At 1 January	(4,239)	(1,000)
Fair value loss in current year	(128)	(3,239)
At 31 December	(4,367)	(4,239)

The financial asset at fair value through profit or loss relates to long term note issued to the Group in 2017 following a restructure of facilities to a customer in the airline industry (original borrower company). The loan note earns a coupon rate of interest, is partly guaranteed by the Government of Kenya and is secured by shares held by the issuer in the original borrower company. The ultimate amount recoverable on the loan note will depend on the value realised when the underlying shares are disposed of (including any upswing) and any guarantee called in the event of loss. The instrument is considered a loan instrument with an embedded derivative and has therefore been classified as an asset at fair value through profit or loss.

The use of the discounted cash flow approach is no longer considered appropriate as it is unclear what the long term effects of the COVID-19 pandemic and Government actions will be on the cash flows of the original borrower company. In valuing the hybrid instrument at 31 December, management has therefore only taken into account the Government guarantee as there is significant uncertainty in relation to the future recovery of interest and recovery of amounts from sale of shares. In particular, the original borrower company is loss making, is in a significant shareholders' deficit position and has been significantly adversely impacted by the COVID-19 pandemic.

Notes (continued)

21 Investment securities – Group

	2021 Shs' millions	2020 Shs' millions
Investment securities at amortised cost		
At start of year	15,855	21,584
Acquisition of a subsidiary	-	10
Purchase of securities	3,031	4,524
Maturity of securities	(5,189)	(10,685)
Translation differences	15	422
At end of year	13,712	15,855
12-month ECL:		
At 1 January	(11)	(11)
Re-measurement during the year	5	-
At 31 December	(6)	(11)
Net carrying amount	13,706	15,844
Investment securities at FVOCI		
At start of year	201,163	150,192
Purchase of investment securities	373,035	167,110
Sale / maturity of investment securities	(186,563)	(121,047)
Net gain/(loss) on fair valuation	(10,126)	4,233
Translation differences	(198)	675
At end of year	377,311	201,163
12-month ECL:		
At 1 January	(83)	(64)
Re-measurement during the year	(76)	(19)
Translation differences	1	-
At 31 December	(158)	(83)
Net carrying amount	377,153	201,080
Investment securities at FVTPL		
At start of year	484	507
Purchase of investment securities	6,561	1,347
Sale of investment securities	(4,178)	(1,255)
Net gain on fair valuation	66	(129)
Translation differences	309	14
Net carrying amount	3,242	484
Total investment securities	394,101	217,408
Current	89,063	126,191
Non-current	305,038	91,217
Total	394,101	217,408

The weighted average effective interest rate at 31 December 2021 was 9.63% (2020: 9.88%)

Notes (continued)

22 Other assets

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Settlement and clearing accounts	2,412	3,040	-	-
Prepaid expenses	9,166	6,371	18	9
Refundable deposits	733	548	-	-
Sundry debtors	2,898	4,087	362	-
Other assets	7,935	6,049	7,000	779
	23,144	20,095	7,380	788
12-month ECL:				
At 1 January	(435)	(430)	(275)	(275)
Re-measurement during the year	(71)	(5)	-	-
Translation differences	(31)	-	-	-
At 31 December	(537)	(435)	(275)	(275)
Net carrying amount	22,607	19,660	7,105	513

Other assets are settled no more than 12 months after the reporting date. All the balances are non-interest bearing. Other assets for the Company includes the Dividend receivable from EBKL.

23 Deferred income tax

The net deferred income tax movement computed at the enacted tax rates, is attributable to the following items:

Group **For the year ended 31 December 2021**	At start of year Shs' millions	Recognised in profit or loss Shs' millions	Translation differences Shs' millions	Recognised in OCI Shs' millions	At end of Year Shs' millions
Property, equipment and software	187	(292)	(352)	-	(457)
Loan impairment provision	13,654	(366)	1,017	-	14,305
Provision for accrued leave	109	11	(9)	-	111
Other temporary differences	938	530	(628)	-	840
Deferred income	(802)	(205)	(200)	-	(1,207)
FVOCI reserves	(2,403)	-	(137)	3,028	488
Other reserves (Deferred benefit obligation)	185	-	41	(337)	(111)
	11,868	(322)	(268)	2,691	13,969

Notes (continued)

23 Deferred income tax (continued)

	At start of year Shs' millions	Recognised in profit or loss Shs' millions	Acquisition of a subsidiary Shs' millions	Translation Differences Shs' millions	Recognised in OCI Shs' millions	At end of year Shs' millions
Company – 31 December 2021						
Loan impairment provision	90	23	-	-	-	113
Group						
For the year ended 31 December 2020						
Property, equipment and software	809	34	(663)	7	-	187
Loan impairment provision	6,204	7,473	607	(630)	-	13,654
Provision for accrued leave	97	9	-	3	-	109
Other temporary differences	1,088	230	(256)	(124)	-	938
Deferred income	(808)	9	7	(10)	-	(802)
FVOCI reserves	(1,048)	-	-	(86)	(1,269)	(2,403)
Other reserves	-	-	-	(6)	191	185
	6,342	7,755	(305)	(846)	(1,078)	11,868
Company – 31 December 2020						
Loan impairment provision	85	5		-	-	90

The deferred tax asset and deferred tax liability at group level in the statement of financial position have been separated as required by IAS 12, since they relate to different tax jurisdictions.

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
The balance at 31 December is made up of:				
Deferred income tax asset	14,940	13,207	113	90
Deferred income tax liability	(971)	(1,339)	-	-
	13,969	11,868	113	90

The Group has concluded that the deferred income tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Group. The Group is expected to continue generating taxable income.

Notes (continued)

24 Deposits from customers

Deposits from customers are analysed below:

	Group 2021 Shs' millions	2020 Shs' millions
Retail customers		
Savings deposits	46,022	143,809
Current deposits	79,417	76,241
Term deposits	44,911	41,787
Transactional deposits	151,807	53,756
	322,157	315,593
Corporate customers		
Term deposits	232,556	146,324
Current deposits	350,123	247,196
Transactional deposits	32,130	26,727
Savings deposits	19,697	3,096
Margin on guarantees	2,314	1,865
	636,820	425,208
	958,977	740,801
Current	435,142	336,143
Non-current	523,835	404,658
Total	958,977	740,801

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 5.3% (2020: 7.22%). The carrying value of customer deposits approximates their fair value. The summary of terms and conditions for the various categories of deposits are below:

(a) Term deposits - These are high interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for specified term periods of time. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.
(b) Current accounts - These are non-interest-bearing accounts that are due on demand. They are operated by both individuals and institutions with the use of a cheque book. They are subject to transaction activity fees and/or monthly maintenance charges.
(c) Savings accounts - These are deposits accounts designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is paid into the account bi-annually.
(d) Transaction deposits - These are non-interest-bearing accounts that can be used directly as cash without withdrawal limits or restrictions.

Notes (continued)

25 Other liabilities

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Short term employee benefits	542	506	-	-
Settlement and clearing accounts	3,042	8,664	-	-
Accounts payable and sundry creditors	14,813	7,773	-	-
Accrued expenses	4,978	5,750	2	-
Deferred income	5,966	3,623	-	-
	29,341	26,316	2	-
Current	24,565	23,359	2	-
Non-current	4,776	2,957	-	-
	29,341	26,316	2	-

26 Borrowed funds

	Group 2021	Group 2020	Company 2021	Company 2020
Equity Bank (Kenya) Limited (EBKL)				
International Finance Corporation (IFC)	33,355	21,806	-	-
KFW DEG	11,539	11,145	-	-
Proparco	11,453	11,000	-	-
DEG-CDC-FMO	11,368	10,935	-	-
CDC Group PLC	5,666	-		
African Development Bank (AfDB)	5,087	8,191	-	-
responsibility	-	1,103	-	-
European Investment Bank	16,806	-	-	-
KFW (Ministry of Finance) – SIPMK	18	52	-	-
Overnight Borrowings	3,793	5,721		
Equity Group Holdings Plc (EGH Plc)				
African Development Bank (AfDB)	11,461	10,938	11,461	10,938
Inter-bank money market borrowings:				
Equity Bank (Kenya) Limited *(EBUL)*	50	-	-	-
Equity Banque Commerciale Du Congo *(EquityBCDC)*	-	4,430	-	-
EBUL				
European Investment Bank	1,257	1,600	-	-
Uganda Energy Credit Capitalisation Company	153	-		
EBTL				
European Investment Bank	3,813	4,295	-	-
EBRPLC				
National Bank of Rwanda	5,101	3,788	-	-
EquityBCDC				
European Investment Bank	5,617	1,816	-	-
International Finance Corporation (IFC)	1,591	-		
FPM	-	328	-	-
BCC	212	-		
	128,340	97,148	11,461	10,938

Notes (continued)

26 Borrowed funds (continued)

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Current	19,363	23,779	-	13
Non-current portion	108,977	73,369	11,461	10,925
	128,340	97,148	11,461	10,938
Movement during the year:				
At 1 January	97,148	56,714	10,938	-
Proceeds from borrowed funds	94,852	65,159	-	10,925
Repayment of borrowed funds	(60,443)	(26,016)	-	-
Interest charged on borrowed funds	4,851	4,015	570	13
Interest paid on borrowed funds	(4,176)	(4,101)	(436)	-
Translation differences	(3,892)	1,377	389	-
	128,340	97,148	11,461	10,938

Company

Lender	Type of loan	Loan balance Shs' millions	Security	Currency	Interest rate	Maturity date	Finance cost recognised in the year Shs' millions
31 December 2021							
African Development Bank	Long term loan	11,461	Unsecured	USD	6-month LIBOR+4.9%	24 December 2027	570
31 December 2020							
African Development Bank	Long term loan	10,938	Unsecured	USD	6-month LIBOR+4.9%	24 December 2027	13

Notes (continued)
Borrowed funds (Continued)
31 December 2021 – Group

Lender	**Type of loan**	**Loan balance**	**Security**	**Currency**	**Interest rate**	**Maturity date**	**Finance cost recognised in the year**
		Shs' millions					**Shs' millions**
International Finance Corporation (IFC), *EBKL*	Long term loan	11,488	Unsecured	USD	LIBOR+ 5.30%	15 March 2026	578
International Finance Corporation (IFC) COVID-19, *EBKL*	Long term loan	5,663	Unsecured	USD	LIBOR+1.90%	30 June 2022	62
International Finance Corporation (IFC),*EBKL*	Long term loan	3,170	Unsecured	USD	LIBOR +3.15%	15 March 2023	136
IFC B1 & C - Subordinated Debt, EBKL	Long term loan	13,034	Unsecured	USD	LIBOR+ 5.6%	15 Dec 2028	20
CDC Group PLC, EBKL	Long term loan	5,666	Unsecured	USD	LIBOR+ 4.85%	15 Dec 2028	8
KFW-DEG, *EBKL*	Long term loan	11,538	Unsecured	USD	LIBOR+5.00%	15 August 2026	610
Proparco, *EBKL*	Long term loan	11,453	Unsecured	USD	LIBOR+5.30%	15 July 2027	295
Africa Development Bank, *EGH Plc*	Long term loan	11,461	Unsecured	USD	LIBOR+ 4.9%	24 December 2027	570
African Development Bank, *EBKL*	Long term loan	5,087	Unsecured	USD	LIBOR +2.85%	1 February 2023	186
European Investment Bank, *EBKL*	Long term loan	3,398	Unsecured	SHS	6.97%	1 Oct 2027	217
European Investment Bank, *EBKL*	Long term loan	10,063	Unsecured	SHS	7.74%	1 Apr 2028	425
European Investment Bank, *EBKL*	Long term loan	3,345	Unsecured	SHS	6.31%	1 Oct 2027	122
KFW (Ministry of Finance) – SIPMK, *EBKL*	Long term loan	18	Unsecured	SHS	4.00%	30 December 2024	2
DEG-CDC-FMO-Facility A, *EBKL*	Long term loan	7,106	Unsecured	USD	LIBOR+ 2.85%	15 November 2027	215
DEG-CDC-FMO-Facility B, *EBKL*	Long term loan	4,262	Unsecured	USD	LIBOR+ 2.65%	15 November 2027	188
Overnight Borrowings by EBKL	Short term loan	3,793	Unsecured	Various	Various	Various	320
National Bank of Rwanda, *EBRPLC*	Medium term loan	1,414	Unsecured	RWF	8.00%	13 August, 2023	113
National Bank of Rwanda, *EBRPLC*	Medium term loan	2,787	Unsecured	RWF	8.00%	13 October, 2023	142
National Bank of Rwanda-(COVID-19 Economic Recovery Fund), *EBRPLC*	Short term	901	Unsecured	RWF	0% to 2%	05 November 2025 16 October, 2035	60
Uganda Energy Credit Capitalisation Company, EBUL	Medium term	153	Unsecured	USHS	5%	21 November 2026	2
European Investment Bank, *EBUL*	Medium term loan	1,257	Unsecured	USHS	10.83%	20 October 2024	52
Overnight Borrowings by EBUL	Short term loan	50	Unsecured	Various	Various	Various	21
European Investment Bank, *EBTL*	Medium term loan	3,813	Unsecured	USD	LIBOR +4.5%	20 October 2027	250
European Investment Bank, *EquityBCDC*	Medium term loan	1,591	Unsecured	USD	Between 4.67 % to 5.23%	20 April 2027	75
International Finance Corporation (IFC), *EquityBCDC*	Medium term loan	5,617	Unsecured	USD	6%	07 October 2024	161
Central Bank of Congo, *EquityBCDC*	Medium term loan	212	Unsecured	USD	3%	24 April 2024	5
FPM, *EquityBCDC*	Medium term loan	-	Unsecured	USD	6%	16 September 2021	16
		128,340					4,851

Notes (continued)

Borrowed funds (Continued)
31 December 2020 – Group

Lender	Type of loan	Loan balance Shs' millions	Security	Currency	Interest rate	Maturity date	Finance cost recognised in the year Shs' millions
International Finance Corporation (IFC), *EBKL*	Long term loan	11,097	Unsecured	USD	LIBOR+ 5.30%	15 March 2026	659
International Finance Corporation (IFC) COVID-19, *EBKL*	Long term loan	5,468	Unsecured	USD	LIBOR+1.90%	30 June 2021	76
International Finance Corporation (IFC), *EBKL*	Long term loan	5,241	Unsecured	USD	LIBOR +3.15%	15 March 2023	254
KFW-DEG, *EBKL*	Long term loan	11,145	Unsecured	USD	LIBOR+5.00%	15 August 2026	704
Proparco, *EBKL*	Long term loan	11,000	Unsecured	USD	LIBOR+5.30%	15 July 2027	102
Africa Development Bank, *EGH Plc*	Long term loan	10,938	Unsecured	USD	LIBOR+ 2.65%-2.85%	15 November 2027	19
African Development Bank, *EBKL*	Long term loan	8,191	Unsecured	USD	LIBOR +2.85%	1 February 2023	381
Responsibility, *EBKL*	Medium term loan	1,103	Unsecured	USD	LIBOR+ 3.07%	31 March 2021	120
European Investment Bank, *EBKL*	Medium term loan	-	Unsecured	SHS	2.95%	15 December 2020	17
KFW (Ministry of Finance) – SIPMK, *EBKL*	Long term loan	52	Unsecured	SHS	4.00%	30 December 2024	5
DEG-CDC-FMO-Facility A, *EBKL*	Long term loan	6,835	Unsecured	USD	LIBOR+ 2.85%	15 November 2027	16
DEG-CDC-FMO-Facility B, *EBKL*	Long term loan	4,099	Unsecured	USD	LIBOR+ 2.65%	15 November 2021	3
Money market borrowings by *EBKL*	Short term	5,722	Unsecured	SHS	Various	Less than 3 months	161
Money market borrowings by *EBRPLC*	Short term	-	Unsecured	RWF	Various	Less than 3 months	158
Money market borrowings by *EquityBCDC*	Short term	4,430	Unsecured	USD	Various	Less than 3 months	694
Money market borrowings by EBUL	Short term	-	Unsecured	USHS	Various	Less than 3 months	8
National Bank of Rwanda, *EBRPLC*	Medium term loan	1,049	Unsecured	RWF	8.00%	09 October 2021	26
National Bank of Rwanda, *EBRPLC*	Medium term loan	2,203	Unsecured	RWF	8.00%	09 August ,2023	67
National Bank of Rwanda-(COVID-19 Economic Recovery Fund), *EBRPLC*	Short term	536	Unsecured	RWF	0% -2%	05 November 2025 16 October, 2035	-
European Investment Bank, *EBUL*	Medium term loan	1,600	Unsecured	USHS	10.83%	20 October 2024	125
European Investment Bank, *EBTL*	Medium term loan	4,295	Unsecured	USD	LIBOR +4.5%	20 October 2027	262
European Investment Bank, *EquityBCDC*	Medium term loan	1,816	Unsecured	USD	Between 4.67 % to 5.23%	20 April 2027	139
FPM, *EquityBCDC*	Medium term loan	328	Unsecured	USD	6%	16 September 2021	19
		97,148					4,015

Notes (continued)

27 Retirement benefits obligation – Defined benefit plan

The Group has an unfunded defined benefit plan for the employees in DRC.

	2021 Shs' millions	2020 Shs' millions
Movement in retirement benefit obligations:		
At 01 January	2,405	-
Acquisition of a subsidiary	-	1,854
Interest cost	86	49
Past service cost	62	73
Benefits paid by the plan	(448)	(207)
Recognised actuarial (losses)/gains	(1,124)	636
Translation differences	288	-
Present value of funded obligations	1,269	2,405
The net charge recognised in the income statement / other comprehensive income is as follows:		
Interest cost (profit or loss)	86	49
Recognised actuarial cost (OCI)	1,124	(636)
Past service cost (profit or loss)	62	73
The movement in the retirement benefit obligations in the statement of financial position is as follows:		
At 01 January	2,405	-
Acquisition of a subsidiary	-	1,854
Employer contributions	(448)	(207)
Charge to income statement	148	122
Charge to the OCI	(1,124)	636
Translation differences	288	-
At 31 December	1,269	2,405
Summary of benefit and contribution structure		
Eligible and active members (Number)	1,140	512
Normal retirement age (Years)	65	63

Key assumptions

The principal actuarial assumptions used at the reporting date were:

	2021 % pa	2020 % pa
Discount rate	6	3
Expected rate of salary increase	6	5
Inflation	3	15.84
Mortality rate	0.98	0.94

These assumptions are likely to change in the future and this will affect the value placed on the liabilities.

Impact		**Shs' millions**
Discount rate (+/-1% movement)	+/-65	+/-142
Inflation rate (+/-2% movement)	+/-58	+/-132

Although this analysis does not look at simultaneous changes in the assumptions, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

Notes (continued)

28 Share capital and reserves

(a) Share capital

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Authorised - 4,114,196,688 (2020: 4,114,196,688) ordinary shares of Shs 0.5 each	2,057	2,057	2,057	2,057
Issued and fully paid - 3,773,674,802 (2020: 3,773,674,802) ordinary shares of Shs 0.5 each	1,887	1,887	1,887	1,887
Movement in ordinary shares				
At start and end of year (3,773,674,802)	3,774	3,774	3,774	3,774
In monetary terms:				
At start and end of year	1,887	1,887	1,887	1,887

The shareholders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Share premium

Share premium arose from the issue of shares at a price higher than the par value of the shares. The adjustment in 2020 was to correctly state the share premium on the acquisition of Equity Bank Congo S.A in 2015.

(c) FVOCI reserve

The fair value through other comprehensive income (FVOCI) reserve is attributable to marking to market of investment securities classified under the FVOCI category. All unrealised gains and losses are recognised in other comprehensive income and credited to FVOCI reserve until the investment is derecognised at which time the cumulative gain or loss is recognised in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the FVOCI reserve to profit or loss.

(d) Statutory loan loss reserve

The loan loss reserve represents excess of the loans and advances impairment provision determined in accordance with the Central Banks of Rwanda and Uganda prudential guidelines compared with the requirements of *IFRS 9 - Financial instruments: Recognition and measurement.* This amount is not available for distribution.

(e) Other reserves

The other reserves represent pre-acquisition reserves from Equity Bank Uganda Limited and actuarial gains/losses from revaluation of defined benefit obligation. This amount is not available for distribution.

(f) Foreign currency translation reserve

The foreign exchange translation reserve represents translation of the financial statements of the subsidiaries from respective currencies to Kenya Shillings. This amount is not available for distribution.

Notes (continued)

28 Share capital and reserves (continued)

(g) Dividends

The following dividends were declared and/or paid by the Company. Cash dividends on ordinary shares declared and paid:

	Group		Company	
	2021	2020	2021	2020
	Shs' millions	Shs' millions	Shs' Millions	Shs' millions
Final dividend declared and paid: Shs (Nil) (2020: Nil)	-	-	-	-

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

There is no income tax consequence arising from the retention or distribution of the retained earnings during the year (2020: Nil).

29 Related parties and related party transactions

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group (including subsidiaries) and its employees. The Group considers the Board of Directors, executive and non-executive Directors, to be key management personnel for the purposes of IAS 24 - related party disclosures.

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business.

(a) Loans to key management personnel

	Group	
	2021	2020
	Shs' millions	Shs' millions
At start of year	1,651	1,356
Acquisition of a subsidiary	-	340
Interest charged	134	75
Loans disbursed	1,325	417
Repayments	(575)	(537)
Translation differences	19	-
At end of year	2,554	1,651
Current	160	91
Non – current	2,394	1,560
Total	2,554	1,651

Notes (continued)

29 Related parties and related party transactions (continued)

(b) Loans to employees

	Group 2021 Shs' millions	2020 Shs' millions
At start of year	7,274	5,484
Acquisition of a subsidiary	-	294
Interest charged	518	281
Loans disbursed	5,034	3,597
Repayments	(3,086)	(2,382)
Translation differences	98	-
At end of year	9,838	7,274
Current	368	383
Non – current	9,470	6,891
Total	9,838	7,274

The loans are secured by property mortgage and are repayable in a period of up to 25 years at an average interest rate of 6% to 10% per annum.

(c) Loans to associates of key management personnel

	Group 2021 Shs' Millions	2020 Shs' millions
At start of year	4,523	2,833
Acquisition of a subsidiary	-	-
Interest charged	70	112
Loans disbursed	1,025	1,676
Repayments	(300)	(98)
At end of year	5,318	4,523
Current	91	91
Non – current	5,227	4,432
Total	5,318	4,523

These are loans to associates of executive and non-executive directors. The total amount of loans and advances granted was in ordinary course of business. There were no provisions for doubtful debts related to the amount of outstanding balances and no expense was recognised during the year in respect of bad or doubtful debts due from related parties.

Notes (continued)

29 Related parties and related party transactions (continued)

(d) Key management personnel compensation

	Group 2021 Shs' millions	Group 2020 Shs' millions
Remuneration to executive directors:		
Company*	192	324
Group**	1,102	991
Remuneration to key management	4,201	3,262
	5,495	4,577

* Remuneration to the executive directors of the parent Company, Equity Group Holdings Plc

** Remuneration to the executive directors of the subsidiary companies in the Group.

	Group 2021 Shs' millions	Group 2020 Shs' millions
Remuneration to key management:		
Salaries and short-term benefits	4,014	3,117
Pension	187	145
	4,201	3,262

(e) Directors' emoluments

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Directors of EGH Plc				
As executives	192	324	-	-
Fees for non-executive directors	36	25	36	25
	228	349	36	25
Directors of subsidiaries who are not directors of EGH Plc:				
As executives	1,102	991	-	-
Fees for non-executive directors	132	124	-	-
	1,234	1,115	-	-

Notes (continued)

29 Related parties and related party transactions (continued)

(e) Directors' emoluments (continued)

In addition to their salaries, the Group also contributes to a post-employment defined contribution plan and the national social security fund for Kenya, Tanzania, Uganda and Democratic Republic of Congo employees. The Group also contributes to the Rwanda Social Security Fund for Rwanda employees and to a private pension fund for employees in South Sudan.

(f) Amounts due from related parties

	Group		Company	
	2021 Shs' millions	2020 Shs' millions	2021 Shs' millions	2020 Shs' millions
Equity Group Foundation	160	-		-
Equity Investment Bank Limited	-	-	3	39
Equity Insurance Group Holdings Ltd	-		200	-
	160	-	203	39

(g) Amounts due to related parties

	Group 2021 Shs' millions	Group 2020 Shs' millions	Company 2021 Shs' millions	Company 2020 Shs' millions
Equity Group Foundation	-	114	-	-
Equity Bank (Kenya) Limited	-	-	925	22
Equity Investment Services Limited	-	-	420	420
	-	114	1,345	442

(h) Dividend income from subsidiaries

	Company 2021 Shs' millions	Company 2020 Shs' millions
Equity Bank (Kenya) Limited	7,000	-
Equity Insurance Agency Limited	400	400
Equity Bank (South Sudan) Limited	303	107
Equity Investment Bank Limited	150	100
Finserve Africa Limited	850	-
	8,703	607

Related parties are only the subsidiary companies in addition to Equity Group Foundation, which is a related party by virtue of common directorship. Transactions with related parties are carried out in the normal course of business. The outstanding balances as at year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. For the year ended 31 December 2021, the Group has not recorded any impairment loss on receivables relating to the amounts owed by related parties (2020: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes (continued)

30 Earnings per share

The calculation of basic earnings per share for the Group at 31 December 2021 is based on the profit attributable to ordinary shareholders of Shs 39,174 million (2020: Shs 19,790 million) and the weighted average number of ordinary shares outstanding of 3,774 million (2020: 3,774 million).

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
Profit for the year attributable to equity shareholders	39,174	19,790
Number of shares: (in millions)		
Issued and weighted average number of ordinary shares at start and end of year: 3,773,674,802 (2020: 3,773,674,802))	3,774	3,774
Basic and diluted earnings per share (in Kenya Shillings)	10.38	5.24

31 Off-balance sheet contingencies and commitments

Group

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	Group		Company	
	2021	**2020**	**2021**	**2020**
	Shs' millions	**Shs' millions**	**Shs' millions**	**Shs' millions**
Guarantees and standby letters of credit	77,261	67,860	-	-
Letters of credit, acceptances and other documentary credits	41,626	36,142	-	-
	118,887	104,002	-	-

Commitments contracted for at the reporting date but not recognised in the financial statements are as follows:

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
Capital commitments	3,458	2,296
Loans approved but not disbursed	16,955	56,337
	20,413	58,633

Notes (continued)

31 Off-balance sheet contingencies and commitments (continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

Group – 2021	0 - 3 months Shs' millions	3 - 6 months Shs' millions	6 - 12 months Shs' millions	1 - 5 Years Shs' millions	Total Shs' millions
Guarantees and standby letters of credit	17,290	8,801	24,299	26,871	77,261
Letters of credit, acceptances and other documentary credits	31,961	6,510	1,596	1,558	41,625
Capital commitments	30	96	3,332	-	3,458
Loans approved but not disbursed	8,728	2,982	2,426	2,819	16,955
Total commitments and guarantees	58,009	18,389	31,653	31,248	139,299
Group – 2020					
Guarantees and standby letters of credit	27,347	5,226	12,591	22,696	67,860
Letters of credit, acceptances and other documentary credits	7,107	9,269	14,196	5,570	36,142
Capital commitments	127	-	2,169	-	2,296
Loans approved but not disbursed	36,914	19,011	146	266	56,337
Total commitments and guarantees	71,495	33,506	29,102	28,532	162,635

Contingent liabilities – Litigation

The Group has established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes provisions to account for any adverse effects which the claim may have on its financial standing.

Contingent tax liabilities

The Group has unresolved tax disputes with the Kenya Revenue Authority currently pending at the Tax Appeals Tribunal. Based on professional advice received, the directors are of the opinion that no significant loss will arise from these matters.

Notes (continued)

32 Retirement benefit obligations – Defined contribution schemes

The Group contributes to statutory defined contribution pension schemes (the National Social Security Fund (NSSF)), for Kenya, Tanzania, Uganda and Democratic Republic of Congo employees. The Group also contributes to the Rwanda Social Security Fund for Rwanda employees and to a private pension fund for employees in South Sudan.

	Group	
	2021	**2020**
	Shs' millions	**Shs' millions**
National Social Security Fund	196	188
Pension Scheme	1,064	867
	1,260	1,055

33 Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(i) Business segments

The Group provides financial services to individuals, small and medium sized enterprises and large enterprises in each of the banking subsidiaries. For management purposes, the results of each business unit (entity) is reviewed separately for the purpose of making decisions.

Notes (continued)

33 Segment information (continued)

(i) Business segments (continued)

The three customer facing lines of businesses include:

Consumer – This segment targets salaried customers or customers receiving other regular remittances like pension. Facilities granted under this segment are for the purposes of empowering such customers to meet their most immediate personal needs or personal development.

Small and Medium Enterprises (SME's) – These are customers with small and medium enterprises. The facilities granted under this segment are for purposes of meeting working capital needs, property development or acquisition of assets.

Corporate – This segment comprises large enterprises. The facilities granted under this segment are designed for purposes of meeting working capital needs, large scale development, property acquisition, large investments and acquisition of assets.

The products the group offers its customers include:

Equi loan - a credit facility granted to employees of reputable organizations that the Group has an MOU with. The facility is administered through a check off system from the employer where loan deductions are remitted to the Group for loan instalment due.

Vijana loan - meant to cater for the youth majority of whom have business ideas but lack conventional collaterals, the Group set aside some funds to support this clientele. The lending is done through group methodology

Fanikisha loan - loan products tailored for women clients. They have a characteristic of flexibility on collaterals since majority of women don't have formal collaterals yet have good business ideas.

Farm input - facilities granted to customers in the agricultural sector of the economy for inputs and working capital needs.

Mortgage loan - facilities granted to customers in pursuit of housing needs. The mortgages are advanced for both residential and commercial purposes. This is available to both salaried and business clients.

Asset finance loan - granted to our customers for purchase of both movable and immovable assets. Majority of the customers are in business.

Trade finance - products for customers in business and facilitates purchase of goods and services and subsequent payments thereof. Various products are extended under trade finance including Bid bonds, LCs and Guarantees among others.

Development loan - a facility granted to customers in the construction to finance the project in terms of materials and other overheads. Majority of customers accessing this product are predominantly in SME and Corporate sectors.

Business loan - credit facilities granted to business customers for working capital needs. Biashara Imara - working capital facility provided to micro clients with no conventional collateral.

It is not practicable to segregate revenues from external customers for each product and service as the information is not available and the cost to develop it would be excessive. There are no other distinct significant business segments within each entity to necessitate detailed disclosures.

Notes (continued)

33 Segment information (continued)

(ii) Operating segments

The Group operates in six geographical markets that is Kenya, Uganda, South Sudan, Rwanda, Tanzania and Democratic Republic of Congo. The table below shows the distribution of the Group's total assets, net interest income, total operating income, total expenses and profit before income tax.

Group	**Kenya Shs' millions**	**Uganda Shs' millions**	**South Sudan Shs' millions**	**Rwanda Shs' millions**	**Tanzania Shs' millions**	**DRC Shs' millions**	**Total Shs' millions**
At 31 December 2021							
Total assets	695,436	89,966	12,370	51,213	36,134	419,796	1,304,915
Total liabilities	579,463	77,397	8,334	43,909	30,931	388,688	1,128,722
Net interest income	56,391	6,406	51	3,144	1,940	8,599	76,531
Total operating income	67,637	8,267	(239)	3,651	1,989	18,694	99,999
Depreciation and amortisation	4,286	717	195	221	360	1,449	7,228
Total expenses including impairment of financial assets	26,082	4,653	89	1,672	1,850	13,770	48,116
Profit before income tax	41,555	3,614	(328)	1,978	138	4,924	51,881
Additions to property and equipment	774	428	34	155	124	254	1,769
Additions to intangible assets	3,012	29	-	8	100	45	3,194

Notes (continued)

33 Segment information (continued)

(ii) Operating segments (continued)

Group **At 31 December 2020**	**Kenya Shs' millions**	**Uganda Shs' millions**	**South Sudan Shs' millions**	**Rwanda Shs' millions**	**Tanzania Shs' millions**	**DRC Shs' millions**	**Total Shs' millions**
Total assets	591,111	61,770	9,816	38,803	28,510	285,083	1,015,093
Total liabilities	502,500	52,715	6,340	32,815	23,458	258,624	876,452
Net interest income	46,324	5,382	17	2,763	1,538	5,746	61,770
Total operating income	38,418	6,227	2,312	3,401	1,039	9,679	61,076
Depreciation and amortisation	3,990	652	129	222	374	1,234	6,601
Total expenses including impairment of financial assets	46,526	4,622	1,322	2,024	2,492	8,962	65,948
Profit before income tax	15,923	2,311	1,067	1,676	(426)	1,619	22,170
Additions to property and equipment	1,454	569	5	75	183	(46)	2,240
Additions to intangible assets	1,321	3	-	5	45	378	1,752

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. No revenue from transactions with a single external customer or counter party amounted to 10% or more of the Group's total revenue in 2021 or 2020. The Group's operating segments are reported based on financial information provided to the Strategy and Investment Committee which is the key management committee and represents the decision making organ.

Notes (continued)

34 Derivative financial assets and liabilities

The table below shows the fair values of currency forwards and swaps recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a currency forward or swap's underlying off balance sheet asset / liability and is the basis upon which changes in the fair values of currency forwards and swaps are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

Group	Notional amount asset	Notional amount liability	Fair value of asset	Fair value of liability	Notional amount asset	Notional amount liability	Fair value of asset	Fair value of liability
		2021				2020		
	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions	Shs' millions
Forward exchange contracts	28,988	28,988	28,880	28,568	17,587	17,587	27,840	27,414
Swaps	2,987	2,987	2,738	2,737	6,168	6,168	6,994	6,982
Spot	234	234	233	233	729	729	728	728
	32,209	32,209	31,851	31,538	35,580	35,580	35,562	35,124

The Group has netting agreements in place with counterparties to manage the associated credit risks. These netting agreements and similar arrangements generally enable the counterparties to off-set liabilities against available assets received in the ordinary course of business and / or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

The table below summarises the currency forwards and swaps subject to offsetting and enforceable netting agreements whose net amounts are presented in other assets.

	2021			2020		
	Fair value of asset Shs' millions	Fair value of liability Shs' millions	Net amount presented Shs' millions	Fair value of asset Shs' millions	Fair value of liability Shs' millions	Net amount presented Shs' millions
Forward exchange contracts	28,880	28,568	312	27,840	27,414	426
Swaps	2,739	2,738	1	6,994	6,982	12
Spot	234	234	-	729	729	-
	31,853	31,540	313	35,563	35,125	438

Notes (continued)

35 Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These financial instruments comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance. The Group's custodial services department holds assets on behalf of customers with a value of Shs 200.191 billion (2020 – Shs 171.991 billion). The income for the period for custodial services was Shs 123.183 million (2020 - Shs 158.893 million) while the expenses amounted to Shs 43.048 million (2020 - Shs 41.793 million).

36 Hyperinflation accounting

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in IAS 29. Accordingly, adjustments and reclassifications for the purposes of presentation of financial statements include restatements in accordance with IAS 29, for changes in general purchasing power of the South Sudanese Pound.

The financial statements are based on historical cost approach. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of measuring unit current at the reporting date.

On the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Year	CPI	Conversion coefficient
31 December 2021		
2016	2,799	5.5
2017	4,502	3.4
2018	6,306	2.0
2019	10,657	2.0
2020	16,841	0.9
2021	15,405	1
31 December 2020		
2015	357	47.1
2016	2,799	6.0
2017	4,502	3.7
2018	6,306	2.7
2019	10,657	1.6
2020	16,841	1

Notes (continued)

36 Hyperinflation accounting (continued)

The application of IAS 29 resulted in an adjustment for the loss of purchasing power of the South Sudanese Pound recorded in profit or loss. In the current year, Equity Bank South Sudan was holding excess of monetary assets over monetary liabilities which resulted in a loss on the net monetary position. The movement is shown as below:

	2021 Shs' millions	2020 Shs' millions
Monetary liabilities at 1 January	7,316	4,456
Increase in net monetary liabilities during the year	116	3,434
Monetary liabilities at 31 December	7,432	7,890
Restated monetary liabilities at 31 December	(8,230)	(6,056)
(Loss)/ gain on monetary liabilities (a)	(798)	1,834
Monetary assets at 1 January	11,614	6,972
Increase in net monetary assets during the year	(748)	5,407
Monetary assets at 31 December	10,866	12,379
Restated monetary assets at 31 December	(12,169)	(9,611)
(Loss)/ gain on monetary assets (b)	(1,303)	2,768
Net monetary position gain/ (loss) (a - b)	505	(934)

Monetary liabilities and assets at 1 January are based on opening CPI as of that date.

Monetary liabilities and assets at 31 December have been restated using the conversion coefficient of 0.9 (2020: 1.6).

See also Note 2 (c) (iii).

37 Events after the reporting period

There have been no events after the reporting date that require adjustment to, or disclosure in, these financial statements.

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