Absa Bank Kenya PLC

Integrated Report and
Annual Financial Statements 2021

Icons used in this report

The six capitals model

Financial capital
Our shareholders' equity and funding from investors and customers, which are used to support our business and operational activities, including credit extension.

Manufactured capital
Our business structure and operational processes, including our physical and digital infrastructure, that provide the framework and mechanics of how we do business and create value.

Human capital
Our culture and our people, investing in their development and our collective knowledge, skills and experience to enable delivery of innovative and competitive solutions for our customers.

Social and relationship capital
Our citizenship and strong stakeholder relationships, including rapport with the communities in which we operate, recognising the role that the banking sector plays in building a strong and thriving ecosystem.

Intellectual capital
Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships, as well as the products we offer to our customers.

Natural capital
Our impact on natural resources through our operations and business activities.

Stakeholders

Customers

Employees and unions

Society and communities

Partners

Regulators and government

Investors

Stakeholder engagement is a value-creating process that is of critical importance in furthering Absa's growth ambitions. Engaging with stakeholders in a structured and well-coordinated manner, through meaningful, transparent communication, enables us to cultivate relationships that can serve as valuable capital in both good and challenging times. It is a process that provides important information about our business as well as about our social, political and physical environment. Principle 16 of King IV* advocates for the adoption of a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. The range and extent of engagements is vast and our approach is informed by the specific stakeholder as well as by the need for engagement.

**King IV Report on Corporate Governance for South Africa, 2016™*

About this report

Sustainable value creation is the result of how we apply and leverage our capitals while making trade-offs. Our relevance and ability to create long-term value, now and in the future, are interrelated and fundamentally dependent on the forms of capital available to us. This includes how we use these forms of capital to realise positive returns to the business. It also includes the value that they deliver to business growth and sustainability as well as to society.

Reporting period and forward-looking statements

Our report covers the period from 1 January 2021 to 31 December 2021. Any notable or material events after this date and up until the approval of our Integrated Report are also included. Statements relating to future operations and performance of the Group are not guarantees of future operating, financial or other results. They involve uncertainty, as they rely on future circumstances – some of which are beyond our control. Therefore, ultimate results and outcomes may differ.

Target audience

This Integrated Report is our primary report to our investors. It also contains information relevant to other key stakeholders. The criteria in which these stakeholders have been identified and the material issues defined for the reporting period are further unpacked on pages 12 to 13 of this report. The boundary of this report is limited to the Absa Bank Kenyan operations, as well as external factors that impact on the performance and value creation opportunities for the bank.

Financial and non-financial reporting

This report contains information regarding highlights of stakeholder relationships, material matters, risks and opportunities and contain forward-looking statements. An attempt is made through the use of the International Intergrated Reporting <IR> Framework to articulate the linkages between both financial and non-financial indicators.

Assurance

We employ a combined assurance model to assess and assure various aspects of the business operations, including elements of external reporting. These assurances are provided by the Management and the Board. The scope of services performed by our external assurance providers refers to the Absa Bank Kenya PLC Annual Financial Statements (AFS), presented in pages 105 to 208. We received external assurance from our auditors, pages 101 to 104, on the fair presentation of these annual financial statements.

Board approval

The Board acknowledges our responsibility for the integrity of the Bank's external reporting. This report provides material and relevant information to providers of financial capital to enable informed capital allocation decisions, while supplying information relevant to broader stakeholders.

This report is presented in accordance with the <IR> Framework. It addresses all material matters influencing Absa's ability to create value in the short, medium, and long term. Absa's use of and effect on the Six Capitals is presented, taking into consideration how the availability of these capitals, along with the operating context, has influenced the Bank's business model and strategic direction. Furthermore, we believe this report demonstrates how Absa seeks to fulfill its purpose and, in this way, creates sustainable value for all its stakeholders. It is our opinion that this Integrated Report presents a fair and balanced view of our performance and outlook.

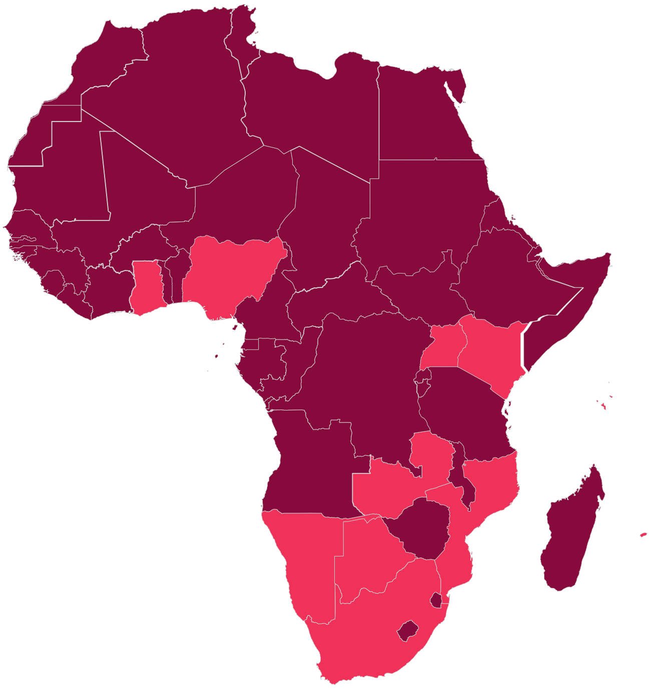
The Board approved this report on 15 March 2022.

Absa Group presence

We are a pan-African group, inspired by the people we serve and determined to be a globally respected organisation of which Africa can be proud. We are committed to finding tailored solutions to uniquely local challenges and everything we do focuses on creating shared value.

As a financial services provider, we play an integral role in the economic life of individuals, businesses and nations. We help create, grow and protect wealth through partnerships in economic development while playing a shaping role in Africa's growth and sustainability.

Customers are served through an extensive branch and self-service terminal network, digital channels, financial advisors, relationship bankers and dealerships, originators, alliances and joint ventures.



15 countries[1]

35 267 employees

989 branches

8 668 ATMs

123 153 point-of-sale devices

Call centres

- Sales, service and general enquiries.
- Interactive voice response capability.

Our digital offering

- Transacting and sales through Absa Online Banking, Absa Access and Virtual Investor.
- Mobile apps, such as the Absa Mobile Banking App, NovoFX, Hello Money, Jumo and Timiza.
- ChatBanking on WhatsApp and Facebook Messenger.
- USSD code-based functionality.
- Online transactions via third-party sites.

Our wide array of partnerships

- Agency banking at third parties for bill payments, deposits and withdrawals.
- Access to financial services through our telecommunications and retail partners, which enhances our digital offering.

Country	Employees	Branches	ATMs	Point-of-sale devices	Founded
Botswana	1 096	32	114	4 761	1950
Seychelles	252	6	21	1 405	1959
Kenya	1 979	84	208	5 213	1916
South Africa	25 908	616	7 613	104 877	1888
Ghana	1 145	63	166	884	1917
Tanzania[1]	1 411	62	234	866	1925
Mauritius	681	11	40	892	1919
Uganda	874	39	77	1 192	1927
Mozambique	733	45	93	1 340	2002
Zambia	784	31	102	1 723	1918

Czech Republic[2]	Namibia[3]	Nigeria[3]	UK[4]	USA[3, 4]
139 employees	1 employee	15 employees	30 employees	10 employees

1 Absa Bank Tanzania and National Bank of Commerce combined
2 Technical (IT support resources to the Group).
3 Representative office..
4 Securities entity.

Ownership and reporting structure

Absa Group Limited
68.5%

Other public shareholders
31.5%

Absa Group

- Absa Bank Limited* — **100%**
- Absa Financial Services Limited* — **100%**
- Absa Bank Botswana Limited — **67.8%**
- Absa Bank Ghana Limited — **100%**
- **Absa Bank Kenya PLC** — **68.5%**
- Absa Bank (Mauritius) Limited — **100%**
- Absa Bank Mozambique, SA — **98.1%**
- Absa Bank (Seychelles) Limited — **99.8%**
- Absa Bank Uganda Limited — **100%**
- Absa Bank Zambia PLC — **100%**
- National Bank of Commerce Limited** — **55%**
- Absa Bank Tanzania Limited — **100%**

Absa Bank Kenya PLC structure

Absa Group Limited
68.5%

Other public shareholders
31.5%

Absa Bank Kenya PLC

- Absa Securities Limited — **100%**
- Absa Kenya Nominees Limited — **100%**
- Absa Asset Management Limited — **100%**
- Absa Bancassurance Intermediary Limited — **100%**
- Absa Pension Services Limited — **100%**

* In South Africa
** In Tanzania

Our value creating business model

Inputs

External operating environment

- Economic recovery following COVID-19 pandemic is expected to be slower than anticipated partly mitigated by expected launch of Government stimulus plan and Government support for MSME
- Currency depreciation and volatility has continued and is expected to continue in the medium-term with government debt levels anticipated to increase
- Continuous assessment of political and regulatory environment aimed at considering their impacts on our business model. The regulatory environment is anticipated to remain highly dynamic

Our six capitals

Financial capital
- Equity – Shs 2 716m
- Deposits – Shs 237 739m
- Retained Earnings – Shs 37 095m
- Market capitalisation - Shs 72.5bn

Intellectual capital
- Reputable and leading brand
- Innovative and new products
- Best in class cyber security protocol
- Investments in data and analytics
- Enhanced Timiza platform and agency banking proposition

Human capital
- 1 991 employees
- Shs 11bn paid in employee benefits
- 55% enabled to work from home
- Customer obsessed and performance focused culture
- Solid credibility of senior teams
- A vibrant, fun and great place to work

Manufactured capital
- 85 branches
- 210 ATMs
- Alternative channels - mobile and internet banking

Social and relationship capital
- 6 000 ReadytoWork interns
- 215 000 ReadytoWork youth
- 3 200 SheTradesKE women
- 574 students in scholarship programme
- Sustainable strategic partnerships
- Sustainable investments
- Robust stakeholder relationships
- Enhanced women in business proposition

Natural capital
- Sustainability programme established
- Sustainable premises
- Sustainable use of natural resources

Our business activities

Driving performance through two business units

Retail and Business Banking (RBB)
- Retail Banking
- Timiza
- Business Banking

Corporate and Investment Banking (CIB)
- Corporate Banking
- Global Financial Markets
- Investment Banking Advisory
- Securities Brokerage
- Asset Management

Viewing our execution through five lenses

1. Operating context:

Our strategy represents our proactive and effective approach to the operating environment. We review and refresh our strategic responses regularly to anticipate and manage risks

2. Governance, risk and performance management:

Our governance approach reconciles the interest of the bank and the society; and our strategy is achieved within our risk appetite parameters

3. Business areas:

Our business units and corporate functions have aligned their execution priorities to our corporate strategy, towards generating value to our stakeholders

4. Our strategy:

Our strategy focuses on creating shared value through delivering growth, transformation and returns

5. Our customers:

We are obsessed about our customers. This guides our strategy towards creating sustainable value

Outputs

We provide a range of banking, advisory and insurance offerings for individuals, small and medium-sized businesses, corporates, financial institutions, banks, governments and development finance institutions. We generate revenue through fees, interest from lending and insurance activities.

Funding and deposits

- Saving products
- Investment products and services
- Fund raising for lending and investment

Output: Innovation of new products

Credit extension

Extend credit through responsible and sustainable lending practices

- Business loans
- Personal loans
- Asset finance
- Cards
- Mortgages

Output: Net interest income

Asset and wealth management

Provide solutions to manage, protect and grow wealth

Output: Gains and losses from investment activities

Facilitate transactions

Enable payments and transactions

Output: Net fee and commission income

Bancassurance

Offer insurance solutions

Output:

- Changes in insurance contract liabilities
- Net insurance premium income
- Net claims and benefits payable on insurance contracts

Markets and trading

Provide trading and global-market-related solutions

Output: Gains and losses from banking and trading activities

Other outputs from our business operations includes carbon emissions and other effluent and waste.

Outcomes

Financial capital

- 13% - growth in total assets
- 6% - growth in customer deposits
- 6% - growth in revenue
- 46% - normalised cost-to-income ratio
- 19% - normalised return on equity

Intellectual capital

- Recorded improved Net Promoter Scores (NPS) at branch level
- Improved availability of Timiza platform for customers with 844 000 loans advanced in 2021

Human capital

- 1 979 service-oriented employees
- Shs 10bn paid in employee benefits

Manufactured capital

- 84 Branches
- 208 ATMs
- Digitally active clients up by 20%
- Digitised five of branch services in 2021
- Uptime of application systems at 99.6%

Social and relationship capital

- Full regulatory compliance
- 36 government interns taken through ReadytoWork programme
- 7 735 youth empowered through ReadytoWork
- 5 850 women entrepreneurs benefited from women in business
- 124 students benefited from scholarship programme

Natural capital

- Branch energy improvement programme
- 13% reduction in energy footprint
- 30% reduction in cost of drinking water
- Green building certification for five sites in progress for buildings owned and managed by Absa

Stakeholder impacted

Impacts

Economic impact SDG 8 SDG 10

- Shs 2.3 billion paid in corporate tax

Benefits to our people SDG 8 SDG 10

- 30% of our board is made up of women
- 30% of our senior management constituted of women
- 48% of employee compliment are women

Contribution to our communities SDG 4 SDG 12 SDG 15 SDG 17

- 215 000 young people trained
- 574 needy students supported to access university education
- 66 schools supported with development of computer labs
- Hand washing stations set up at three schools in Kilifi county
- Donation of 20 000 masks to special needs schools at the peak of the COVID pandemic
- 1 000 families supported through a feeding scheme in the Nairobi informal settlements and Kajiado

Impact on the environment SDG 7 SDG 8 SDG 12 SDG 15 SDG 17

- 13% reduction in energy consumption
- Elimination of plastic use for water supply
- 56% carbon footprint reduction due to reduced plastic use
- Carbon footprint of 224.4 tCO_2 equivalent recorded.
- 6 600 trees planted at 66 schools, mix of fruit trees, indigenous and exotic trees
- Investment in water purification plant in Bombolulu, Mombasa, to supply community and residents with affordable clean water in the wake of COVID-19
- Donation of seedlings to earn an income and for food in the wake of the pandemic in the Yatta subcounty, Machakos

Value creation through our sustainability framework

Absa PLC strives to be a force for good by making a difference in our communities, which benefits both people and the planet. We are privileged to have a track record of over 100 years of serving our people. Over the years, we have endeavoured to contribute to society through broad based initiatives that uplift our stakeholders. In 2020, we issued our sustainability commitments, a series of 13 commitments which we aim to achieve as part of our broader shared value agenda. We have also set our key performance indicators, including measures of success as follows:

No.	Commitment	Goal or Target	Target date	Our SDGs impacted
1	Diversification of our portfolio and increase our funding and capital allocation for initiatives that support; 1. Renewable and clean energy 2. Industries, innovation and infrastructure 3. Financially excluded groups 4. Sustainable cities and communities 5. Responsible consumption and production 6. Value chains	Increase portfolio and capital allocation by at least 10%	2025	**7,8, 9, 10, 11, 12**
2	Increase diversity in the supply chain focusing on Women, Youth and Persons with Disability (PWD)	Achieve 30% diversity	2025	**8,10**
3	Investing in the future of the youth through skills development with our ReadytoWork programme	Train 1 million youth	2025	**4, 8, 10**
4	Become a net zero carbon footprint company by 2040	Achieve net zero	2040	**12**
5	Increase biodiversity and encourage environmental responsibility through planting trees	Plant 10 million trees	2025	**15, 8**
6	Empower our suppliers and create awareness on corporate sustainability and responsible business practices	Train all suppliers on sustainable business	2021	**8, 16**
7	Direct and indirect economic contribution to the Kenyan economy through our current and future funding	% of contribution to economy	Continuous	**8**
8	Become one of the best places to work in Kenya	Top 10	2025	**8**
9	Investing in training and upskilling the future skills and competencies of our employees	Train all employees on at least one future skill	2021	**4, 8, 16**
10	Increase proportion of women within all levels: junior, management and board positions: Gender parity	Attain 50% across all levels	2025	**10**
11	Assess and manage our indirect environmental and social impacts	Reduce and mitigate negative impact	2021	**8, 12**
12	Adherence to governance and control policies internally and through the supply chain	Embed Environmental, Social, Governance (ESG) across all our policies and frameworks	Continuous	**16**
13	Continued partnerships for the goals	Number of partners and value created for society and business	Continuous	**17, 8**

Achieved in 2021

- All employees were trained in at least one future skill including IT skills and interpersonal skills (commitment 9)
- 200 supplier (out of 430 active suppliers) trained on corporate sustainability and responsible business practices (commitment 6).
- Completed assessment of our indirect environmental and social impacts (commitment 11)

Materiality

Determining materiality is critical to a business, ensuring its ability to manage both internal and external risks and opportunities. These, in turn, have a direct bearing on the ability of the business to protect value creation in the form of future financial performance, enhanced brand value and ensuring legal compliance. This report aims to provide a response to the material issues raised by stakeholders during the year. Acknowledging the concerns raised and outlining how they were addressed facilitates the Bank's ability to create long-term embedded value for all stakeholders. The determination and assessment of materiality to the business is an ongoing process driven by both external and internal reviews. This is defined through a four-step process of identifying, validating, applying, and assessing materiality.

A material issue is a matter that can or could have a significant effect on value creation in the short, medium or long-term.

Identify

Validate and prioritise

We determine the validity of these matters according to their relevance against our current operating context. This includes validating the matters with the highest potential to significantly impact the viability of our business.

Once material matters have been validated, we apply our strategy in order to respond expeditiously.

Apply

Assess

Assessing the material issues and their solutions on a continuous basis allows us to ensure that our strategy remains relevant.

Material matters from our external environment

	Material aspect	How we are responding
Economic disruption	The impact of COVID-19 on businesses, households and communities in Kenya has been devastating. The World Bank estimates that the pandemic has increased poverty rates by 4% with 2 million Kenyans pushed into poverty. In 2021, the Kenyan economy showcased marked resilience despite the impact of the virus and the containment measures, particularly the nightly curfew	• Refreshed strategy that aims at re-anchoring to 2018 and taking cognisance of the unprecedented impacts of COVID-19 • Dynamic risk appetite that adapts to the context while ensuring we support our customers • Improved organisational agility and resilience • Support to communities and businesses to mitigate the impacts of the pandemic
Competition and market pressures	The financial sector in Kenya is highly competitive. Additionally, customer expectations have evolved including a younger demographic with distinct preferences in types of products, services and channels. A failure to recognise and adapt to changing competitive forces in appropriate manner could erode our ability to create value and remain relevant to our society	• Delivery of innovative and relevant products and services, including use of innovation sprints and product testing • Increased use of data analytics to proactively understand and respond to customer trends and expectations • Strengthened and innovative technology-based channels and use of technology to enhance operational efficiency
Regulatory and policy environment	We are subject to regulatory oversight as a Bank and listed entity. A dynamic regulatory and policy environment continues to present opportunities and challenges for our business. The pandemic situation has also exacerbated regulations aimed at cushioning businesses and households from the effects of the pandemic, impacting on our business	• Proactive engagement with regulators and policy makers • Strict adherence to regulations including providing our customers and employees with the necessary information and tools to enable them adhere to regulations • Balancing regulatory demands with meeting customer needs while upholding the Bank's values and ethical standards
Environmental and social aspects including climate change	Environmental and social aspects are important in enabling us to remain sustainable. The spectre of climate change and its effects has far reaching ramifications for key sectors like agriculture and tourism. Additionally, stakeholders expect companies to play a leading role in societal development including contributing to the Sustainable Development Goals (SDGs)	• Signed up to the UN Principles for Responsible Banking at Group level • Signed up to the UN Global Compact (Kenya) chapter • Continued implementation of our 13 sustainability commitments • Greening of Absa owned and managed premises
Fraud	Several aspects of our external context create serious fraud risks including the proliferation of personal identifiable data, social engineering challenges that encourage fraud and weak remedial responses	• Robust and technology driven fraud identification and prevention mechanisms developed to proactively and consistently protect our customers and stakeholders. • Rigorous employee capacity enhancement

Material matters raised by stakeholders in 2021

Stakeholder	Material issues raised
Investors	• Response to COVID-19 • Unpaid dividends impact on liquidity management • Performance of the Bank's ESG agenda
Customers	• Enhancement of cyber security and data protection in response to new risks due to increased uptake of digital banking • Types of support offered to specific customer grouping heavily impacted by COVID-19 pandemic
Society and communities	• Nature of support offered to women • Types of financing and support offered to the Small and Medium Enterprise (SME) sector • Engagement and empowerment of the youth

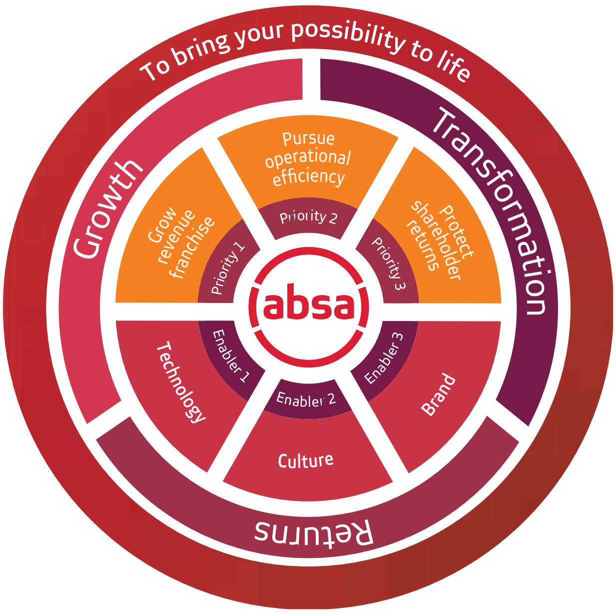
Regulators and government	• Progress in implementing the Data Protection Act (2019)
	• Response to changes in regulations and legislation on:
	  • Fees charged
	  • Client listing at credit reference bureau
	  • Warehousing receipt system
	  • Adjusted provisions required on mortgages

Employees and unions	• Training due to changing reporting, new system implementation and adjusted risk landscape • Assistance due to challenges faced with working from home. • Guidance on how to respond to clients' need for sustainable finance
Partners	• Assistance to align with Absa data protection protocols and new SAP rollout • Assistance to access the ecosystem banking model • Extend sustainability training provided to Absa suppliers to broader financial services and corporate network

Our Strategy: Growth, Transformation and Returns ("GTR")

Our starting point is our purpose.

Our purpose is to 'bring your possibility to life', as we believe in the actions of people who always find a way to get things done. We are obsessed with customers, with creating opportunities for them to make their possibilities real and to support them every step of the way. We are a future focused organisation, driven by progress and our desire to thrive together with the society beyond commercial successes. This forms the foundation of our existence. Below this purpose we define our commercial strategy and for the five years 2018-2023, our commercial strategy is Growth, Transformation and Returns (GTR).

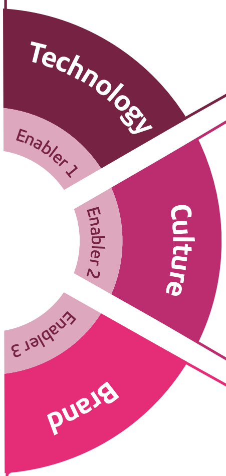


*Our ambition with GTR is to sustainably **Grow** the business, accelerate **Transformation** in line with the operating context and deliver sustainable **Returns** for our shareholders through the cycle. Underpinning GTR are three priorities and three enablers on which we executed in 2021.*

As of 2021, we achieved our 2023 goals in Transformation and Returns pillar and increased momentum in the Growth pillar (GTR)

3 Strategic Priorities		Goal	Achievements as at 2021	Outcomes in 2021
Priority 1 Grow revenue franchise	Growth	Protect our core franchise while pursuing new growth areas.	We have evolved our business with new propositions towards a full financial services group while protecting our core segments and doubling on investments to capture emerging revenue pools in digital finance and payments.	Our franchise registered record profits at 161% growth in profit after tax over previous year with our customer assets expanding by double digit owing to relevance of our offering to their needs. On revenue growth we have largely completed the fit-out with new businesses towards becoming a holistic financial services group.
Priority 2 Pursue operational efficiency	Transformation	Relentlessly simplify our business while capitalizing on the trends created or accelerated by Covid-19.	We have restructured the organisation reducing headcount by 30% over the cycle, invested in digitalization and automation and thus improved level of automation to 40% of total processes and optimised our service channels leading to over 90% of transactions being served out of the branch.	Our cost to income ratio (CIR) improved to 46%, best in over a decade.
Priority 3 Protect shareholder returns	Returns	Optimise our capital allocation, cost efficiency and pursue outsized growth in ROE-captive revenues.	We have implemented a dynamic capital allocation model that has ensured recovery of returns through interest rate caps, one-off re-branding expenses and Covid-19 impact.	Our stock was top performing at the Nairobi Securities Exchange recording a 23% increase; and with dividend yield of 9%; Total returns were at 32%.

We have also made significant progress in delivering on the 3 enablers of our strategy



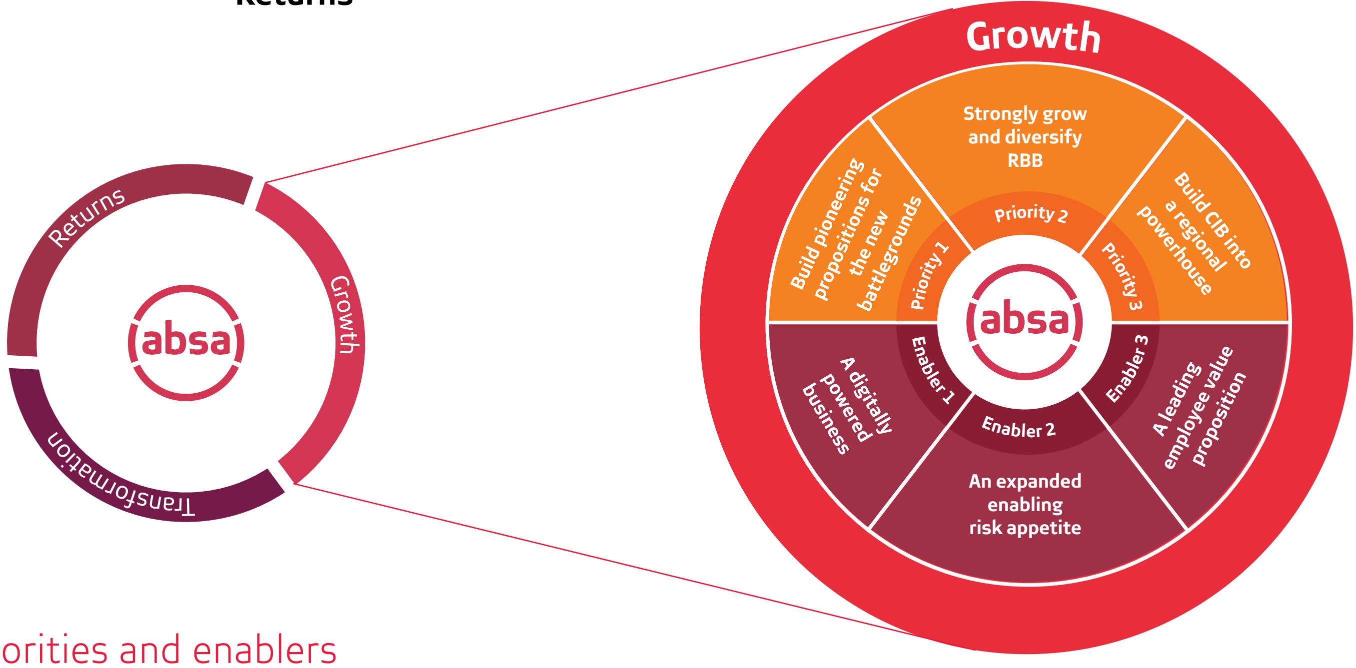
Goals	Achievements as at 2021	Outcomes in 2021
Radically modernize our banking platforms and digital capabilities by investing in new technologies towards becoming the most digitally enabled bank in Kenya.	We concluded the largest technology project in the history of the bank as part of the separation and re-branding program.	This led to recognition in the East Africa CIO awards where we were recognized in the Best Tech overhaul category for our achievements in delivering technology transformation.
Embed our entrepreneurial culture of brave, passionate and ready colleagues with the aim of becoming the employer of choice and a fun, vibrant and great place to work.	We evolved the workforce with agile and dynamic principles through 'sprints and squads' to solve business problems thus enhanced colleague engagement, stimulated innovation and entrepreneurial culture. Most significantly, we seized the long-term trends set by COVID-19 and implemented hybrid ways of working which are relevant to our colleagues.	This led Absa Kenya to be certified as top employer by the Top Employers Institute which is a global authority that recog nizes excellence in people practices. This achievement places our organization amongst a prestigious group of companies that are globally recognized for excellence in supporting employee growth and innovation and a great testament to our strategic efforts in transforming our workplace and ways of working, and underlines that indeed 'Our People are our Strength'.
Build Absa into a dynamic, accessible and aspirational brand.	We continued to build our brand for local relevance and consideration leading to significant Brand Awareness improvement from 28% in 2020 to 92% in 2021. We also achieved improvement on all four pillars of the reputation tracker; value creation, stakeholder engagement, trust and advocacy.	This led to Absa being voted the 2nd most reputable bank in the country, surpassing our former brand. Our brand was also voted second Brand in Kenya for Brands Transforming Lives.

We have refocused our commercial strategy looking forward

After achieving our goals in Transformations and Returns by 2021, we have refocused our strategy for 2022 and 2023 to deliver growth while adapting to the new operating context. We aim to deliver the growth objectives while sustaining the new-found levels of Transformation (cost efficiency ratio) and Returns (return on equity).

2018–2021
Focused on Growth, Transformation and Returns

2022–2023
Focused on Growth



Priorities and enablers

The revised 3 new priorities will seek to build a holistic financial services group delivering market leading growth

Priority 1
Build new pioneering propositions for the new battlegrounds

By investing in capabilities to capture emerging revenue pools where we are currently sub-scale.

Priority 2
Strongly grow and diversify RBB

By investing in our core retail and business bank to grow faster than market supported by digital and strategic partnerships.

Priority 3
Build CIB into a regional powerhouse

By leveraging on East Africa trade corridor, transactional banking capabilities, strategic partnerships and expanded risk appetite.

We will allocate our resources to accelerate implementation of the three enablers of our growth strategy

Enabler 1
A digitally powered business

Through accelerated transformative investments in customer experience and operational efficiency while driving scale in customer acquisition.

Enabler 2
An expanded enabling risk appetite

That supports our growth ambition leveraging on data and analytics.

Enabler 3
A leading employee value proposition

That cements Absa as the employer of choice.

Charles Muchene
Chairman, Board of Directors

> ***After a tumultuous 2020, we are pleased to emerge more resilient and confident in 2021 from the challenges occasioned by the pandemic.***

Reflections from the Chairman

Our twin-pronged strategic intent to reposition the Bank in line with new trends created by COVID-19 while also pursuing persuing growth and transformation into a holistic financial service group remain on course, enabling the Bank to post a healthy recovery. Yet, on occasions like these, where world changing events occur with adverse global impacts, we are well served by a measure of introspection and candour.

The pre-eminence of technology

For Absa, our internal operations and the delivery of value to our customers and stakeholders is now heavily hinged on technology. This trend will continue as the financial sector is expected to go through dynamic changes as technologies like Cloud, Artificial Intelligence, Robotics and Blockchain become more mainstream. These trends have significant potential in client delivery channels, automation, fraud detection and enhancing employee performance. What's more, interfacing with legacy platforms must be seamless and functional to ensure uninterrupted delivery of services and products.

These technology trends have a great bearing on our future. Technology offers us the ability to be nimble in delivering for our customers. This is in response to our changing competitive landscape which calls for exceptional agility, innovation and willingness to embrace and harness change. While we have the advantages of being a strong brand, we are also required to deliver in a fast-paced manner, responding in a timely way to customers. In response, we are investing in simplifying our processes and making them more seamless, ensuring a common experience across the Bank and enhancing convenience and turnaround time.

In the broader financial landscape, we have noted increased initiatives by Central Banks on the continent to establish digital currencies. These new forms of money present opportunities for the financial industry, regulators and consumers. Digital currencies can make international payments more efficient, convenient and secure, and remove the complex operational and security processes linked to the movement of conventional money, improving overall economic efficiency. But the downside is the emerging risks that such currencies portend, requiring greater oversight and robust mitigation systems since their prevalence will have far reaching effects on financial stability requiring new tools to prevent financial crimes.

Beyond customer convenience to personalisation

Evolving customer expectations and behaviour require greater understanding and appreciation of their needs and requirements. There are marked shifts in the ways people create, manage and utilise their finances, driven by demographic changes and the potential created by self-serving capabilities.

What's more, customers are becoming more global in nature, enabled by technology to transact across borders effortlessly. Changing consumer behaviour means the concept of channel will disappear as banks start to deliver omni-channel supported by data science to significantly enhance customer experiences. As majority of transactions migrate to self-service capabilities, we believe branch remains relevant for relationship building and advisory capabilities. We are therefore equipping our branches to deliver these capabilities to ensure we are able to address evolving and complex requirements of customers.

But it is not only in service delivery that technology offers opportunities. We are increasingly using aspects of data science to improve fraud detection and identify threats. This is essential since financial crime has also evolved becoming more technology driven in response to the increased appetite of customers for digital channels and exacerbated by the proliferation of personal identifiable information and social engineering risks in Kenya. Traditional approaches are inadequate to avert or respond to this new and complicated fraud trends requiring enhanced use of technology. And as I noted in last year's report, a substantive aspect of the evolution of the financial sector is the transformation of the world of work with increased reliance on offsite colleagues to deliver value for customers and operations for the Bank.

What this portends for the Bank is not only investment in technology, a facet that we have made consistently, but also the courage to flourish and adapt in a digital age. All these improvements need to be carefully introduced, assessed and re-evaluated. But in the end, it also entails stubborn resolve to pursue change and stay ahead of competition as we become more customer centric, embrace digital-first distribution channels to match customers' changing behaviour patterns and diversify market reach to match customers' points of presence.

Strategic direction

Our strategy focuses on Growth, Transformation and Returns. We have made good strides on all three aspects while aligning to the shifting context and repositioning the Bank in line with the new trends created by the COVID-19 pandemic. Our astute efforts to steer the Bank during the pandemic have borne fruit as we have enhanced our ways of working and organisational design while also transforming our Bank-wide distribution and channels.

Through our investments in technology, we have improved overall employee performance and accelerated the digital transformation of the Bank. Additionally, we have simplified our processes and made them more seamless improving customer experience. We have shown our resilience as a Bank that has been in Kenya for over a century and thrived through several economic cycles and challenges.

Supporting our customers

In confronting the challenges posed by the pandemic, we made the right decisive actions in capital management and supporting customers with over Shs 62 billion loan restructures and Shs 103 billion in gross lending in 2020. In 2021, we have continued to support our customers recovery where we advanced over Shs 128 billion in gross lending to customers with our total assets base growing by 13% to Shs 429 billion in supporting both the customers and sovereign to keep the wheels of the economy going.

We have continued with capacity building webinars for our customers especially SMEs on various topics such as working capital management and continuity planning using hybrid approaches; both physical and online trainings, to scale the outreach. Through this, we have been able to impact over fifteen thousand SMEs and close to six thousand women-led businesses. These decisions are paying off; our customer operations are resilient as we have seen improvements in quality of our credit book and strength of our balance sheet. We have been greatly inspired by the ingenuity and undying determination adopted by our fellow Kenyans to rise above the storm and turn every challenge into an opportunity. At Absa, we call this Africanacity, the distinctly African ability to always find a way to get things done. That unique way in which we address challenges marked by tenacity, ingenuity, positivity, and creativity.

Relevance to society

The United Nations Sustainable Development Goals report for 2021[1] paints a grim picture of the impact of the pandemic. Apart from four million deaths at the time of its release, the report highlights that the global extreme poverty rate rose for the first time in over 20 years, pushing hundreds of millions of people back into extreme poverty and chronic hunger. The leading role played by banks and other financial sector entities during the COVID-19 pandemic, enabling economic activities by ensuring customer transactions, financing businesses, and supporting communities attests to the important role that the sector plays in sustaining and enhancing livelihoods and our way of life.

Yet, beyond the responses to specific occurrences, Absa seeks to be an integral player in the transformation of society, supporting the growth and sustainability of Kenya through our business activities and operations. As a purpose-led Bank, we view our place in society as being catalysts of innovation, economic activities and social development through our products and services, in line with our purpose statement of bringing possibilities to life.

We continue to make strides in achieving our 13 sustainability commitments, which focus on four high-impact goals: quality education (SDG 4), decent work and economic growth (SDG 8), reduced inequalities (SDG 10) and responsible consumption and production (SDG 12) and are underpinned by peace and justice (SDG 16) and partnerships (SDG 17).

[1] *https://unstats.un.org/sdgs/report/2021/*

These commitments resonate with our philosophy of shared value, leveraging on core business and know-how to drive societal and economic change. It also aligns to key continental affiliations we have made at Group level by subscribing to the UN Principles for Responsible Banking and the ambitions of the African Union Agenda 2063. In this respect, we have made great strides in supporting women-led businesses through our She business proposition and supporting the youth to reimagine their futures through internships and scholarships as well as through the ReadyToWork skills training and entrepreneurship programme. As a way of celebrating our first anniversary as the Absa brand, we supported three initiatives as voted by the public under the "Wall of Possibilities" initiative and in alignment with our ambition of bringing possibilities to life.

Board matters

The Board focused on the Bank's stabilisation and recovery in 2021, in line with the theme of "building back better" and in accordance with the Bank's strategy, which focuses on Growth, Transformation and Returns. The Board continues to exercise active oversight, working closely with the management team to ensure that the Bank complies with all regulatory, statutory, and ethical standards as a responsible and sustainable business. I am grateful to the Board for the immense support during a challenging year of execution.

We are privileged to have Ms. Christine Mideva Sabwa join the Board in February 2022. Ms. Sabwa brings a wealth of experience in business strategy, financial management, financial risk assessment, auditing, and business advisory. I welcome her and look forward to drawing from her expertise, insights, and experience.

Going forward

The Board has been consistent in its presence and intentionality, providing the inputs required in sound stewardship. I appreciate the candid and energetic engagement of the Board in all matters presented for their consideration. The management team continues to display foresight and fortitude as they make difficult decisions that such times require while providing our colleagues with the hands-on support to deliver shared value for our stakeholders.

Our customers continue to showcase their loyalty and confidence in us, inspiring our daily efforts to serve them, while our shareholders have been steadfast, supporting us even in a year when we made the difficult and unprecedented decision to withhold dividends.

2021 has been a year of great inspiration, as the Absa family has rallied with great enthusiasm and grit to post a remarkable recovery. The future looks more optimistic than predicted, though we continue to observe external trends to ensure we are prepared for any eventuality.

Charles Muchene
Chairman, Board of Directors

Our Board of Directors

Our Board of Directors

The Absa Board is committed to continuous improvement in our corporate governance principles, policies and practices, and does so by remaining abreast of evolving regulations and best practices. This is further enhanced through engagement with regulators and industry bodies, and regular feedback from other stakeholders.

Good corporate governance practices are important in creating and sustaining shareholder value and ensuring that behaviour is ethical, legal, transparent and for the benefit of all stakeholders.

Charles Muchene 64
Chairman

Jeremy Awori 51
Executive Director and Chief Executive Officer

Yusuf Omari 48
Executive Director and Chief Financial Officer

Dr. Laila Macharia 51
Non Executive Director

Patricia Ithau 56
Non Executive Director

Japheth Olende 68
Non Executive Director

Louis Onyango Otieno 57
Non Executive Director

Charles Njenga Murito 45
Non Executive Director

Fulvio Tonelli 61
Non Executive Director

Christine Sabwa 49
Non Executive Director

Loise Gakumo 43
Company Secretary

Charles Muchene
Chairman
Appointed to Board: August 2016
Appointed Chairman: October 2016
Committee membership: CGNRC SC

External Directorships
- AIG Kenya Limited

Previous roles
- Chairman and Non-Executive Director, East African Breweries Limited
- Independent Non-Executive Director, CfC Stanbic Holdings Limited
- Country Senior Partner and Financial Service Industry Leader, PricewaterhouseCoopers

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Member, Institute of Certified Public Secretaries of Kenya
- Member, Institute of Directors

Jeremy Awori
Executive Director and Chief Executive Officer
Appointed to Board: February 2013
Committee membership: SC

External Directorships
- Executive Council Member, Kenya Bankers Association

Previous roles
- Former Chairman, Kenya Bankers Association
- Chief Executive Officer, Standard Chartered Tanzania
- Regional Sales and Performance Director, Standard Chartered Middle East, South Asia and Africa
- Head of Consumer Banking, Standard Chartered UAE
- Executive Director and Head of Consumer Banking, East Africa

Qualifications
- MBA, McGill University (Canada)
- BSc. Pharmacy, Manchester University (UK)
- Fellow, Aspen Global Leadership Institute
- Member, Young Presidents Organisation

Yusuf Omari
Executive Director and Chief Financial Officer
Appointed to Board: June 2009
Committee membership: None

External roles and memberships
- Board Member, University of Nairobi Enterprise Services
- Board Member, the Institute of Certified Public Accountants of Kenya (ICPAK)

Previous roles
- Head of Compliance, Barclays Kenya
- Head of Internal Audit East and West Africa, Barclays Kenya
- Senior Auditor, KPMG

Qualifications
- Advanced Management Program (AMP), Strathmore and IESE Business School
- MBA, Strathmore Business School
- B.A. Economics, University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Certified Internal Auditor

Dr. Laila Macharia
Non Executive Director
Appointed to Board: August 2014
Committee Chairperson: CC
Committee Chairperson: ARC
Committee membership: SC

External roles and memberships
- Chairman, Africa Digital Media Group
- Chairman, Africa Leadership Initiative - East Africa
- Non-Executive Director, Centum Investment Company PLC
- Non-Executive Director, Two Rivers Development Limited
- Non-Executive Director, Pearl Marina Estates Limited
- Non-Executive Director, Vipingo Development PLC
- Member, Centum Foundation

Qualifications
- LLD, Stanford Law School (US)
- LLM, Stanford Law School (US)
- LLM, Cornell Law School (US)
- LL.B, Cornell Law School (US)
- B.A., University of Oregon (US)
- Member, State Bar of New York (US)
- Member, State Bar of Maryland (US)
- Member, Law Society of Kenya

Patricia Ithau
Non Executive Director
Appointed to Board: March 2016
Board Chairperson: Absa Securities Limited
Committee Chairperson: CGNRC
Committee membership: ARC

External roles and memberships
- Regional Director, Stanford Institute for Innovation in Developing Economies – Stanford Seed
- Non-Executive Director, Trade and Markets East Africa
- Non-Executive Director, Vivo Activewear Limited
- Non-Executive Director, Jambojet Ltd
- Trustee, Vodafone Foundation UK
- Executive Coach, Academy of Executive Coaching

Previous roles
- Former Non-Executive Director, Kenya Private Sector Alliance (KEPSA)
- Non-Executive Director, WPP Scangroup Ltd
- Managing Director, L'Oreal East Africa
- Managing Director, EABL – International
- Managing Director, Uganda Breweries Ltd

Qualifications
- Advanced Management Program (AMP), Strathmore and IESE Business School
- MBA, United States International University Africa
- Bachelor of Commerce (Hons), University of Nairobi
- Dip. Executive Coaching, Academy of Executive Coaching

CGNRC	Corporate Governance Nominations and Remuneration Committee
SC	Strategy Committee
CC	Credit Committee
ARC	Audit and Risk Committee

Japheth Olende
Non Executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Bancassurance Intermediary Limited
Subsidiary Board Membership: Absa Asset Management Limited
Committee membership: CC, CGNRC

External roles and memberships
- Board Member, Jumbo Chem Company Limited
- Board Member Ler Ltd
- Executive Director, OBG Company Limited
- Board Member, Kenya National Bureau of Statistics

Previous roles
- Board Member, Retirement Benefits Authority
- Board Member, AIG Kenya Insurance Company
- Board Member, AIG Uganda Insurance Company
- President, American Chamber of Commerce Kenya Chapter
- Director, Association of Kenya Insurers
- Director, Eagle Eye Laser Centre

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Chartered Insurer, CII London
- Member, Institute of Directors

Louis Onyango Otieno
Non Executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Asset Management Limited
Committee Chairperson: SC
Committee membership: ARC

External roles and memberships
- Board Member, Nation Media Group
- Chairman, Sera Afrika

Previous roles
- Director, Corporate Affairs, Microsoft 4Afrika
- General Manager, East and Southern Africa, Microsoft Corporation
- President, American Chamber of Commerce - Kenya
- ICT Advisor to the Presidents of Tanzania, Uganda and Mozambique
- ICT Advisor, COMESA Business Council
- Board Member, Kenya Vision 2030
- Board Member, Red Media Africa (Nigeria)
- Board Member, Enablis East Africa
- Board Member, Fintech International

Qualifications
- MBA, Long Island University
- BSc (Hons) Computer Science, Mercy College

Charles Njenga Murito
Non-Executive Director
Appointed to Board: June 2020
Committee membership: CGNRC, CC

External roles and memberships
- Regional Director, Sub Saharan Africa, Government Affairs and Public Policy, Google

Previous roles
- Country Director, Google Kenya
- MD and Chief Commercial Officer of Programming, Wananchi Group (Zuku)
- Director, Business Development, Middle East and Africa, Turner Broadcasting (Europe)
- Senior Manager, Programming Strategy, Turner Broadcasting (Europe)
- Chief of Staff to the President, Warner Bros. Entertainment Inc.
- Brand and Sales Manager, East Africa, MTV Networks Africa
- Sales Executive, Content Sales, Domestic TV Distribution, Warner Bros. Entertainment Ltd

Qualifications
- MBA, Entertainment Business and Finance, Cass Business School, London, 2011
- Bachelor of Science, Psychology and Management, Woodbury University Burbank, California, 2000

Fulvio Tonelli
Non-Executive Director
Appointed to Board: October 2020
Committee membership: ARC, CC

External roles and memberships
- Board Member, Absa Group Limited
- Chairman, Independent Regulatory Board of Auditors
- Non-Executive Director, the Ethics Institute

Previous roles
- Partner, Chief Risk Officer, Chief Operating Officer, PwC South Africa

Qualifications
- BCom (Accounting),University of Witwatersrand, Johannesburg, SA
- BCom, University of Witwatersrand, Johannesburg, SA

Christine Sabwa
Non-Executive Director
Appointed to Board: February 2022
- **Committee Membership:** ARC

External Roles and Memberships
- Managing Partner, Sabwa & Associates
- Board Member, Britam Life Assurance Kenya Limited
- Board Member, Multi Choice Group Limited
- Board Member, ECLOF Kenya
- Board Member, Shalom Group of Hospitals

Previous Roles
- Group CFO, Stanbic Bank Kenya Limited
- COO, Airtel Money Africa
- Board Member, Spire Bank Kenya Limited
- Board Member, Royal Nairobi Golf Club

Qualifications
- BCom (Accounting), University of Nairobi, Kenya
- Certified Public Accountant, Kenya

Loise Wambui Gakumo
Company Secretary
Appointed to the role: March 2019

Previous roles
- Group Company Secretary and Chief Legal Adviser, Centum Investment Company PLC

Qualifications
- MPA, University of Nairobi and Kenya School of Government (In progress)
- LLB, University of Nairobi
- Dip. Law, Kenya School of Law
- Advocate of the High Court of Kenya
- Notary Public
- Commissioner for Oaths
- Practising Certified Public Secretary (Kenya)

Value creation through good governance

The Board seeks to create maximum shared value for stakeholders through the Bank's strategy and operations while staying cognisant of the overarching purpose, material macro environment trends and ensuring the business model is sustainable and resonates with stakeholder needs. The Board also monitors the availability, quality and quantity of capital inputs as a key component of good governance, ensuring the Bank is adequately and appropriately resourced. All these aspects inform the Bank's strategy and provide inputs for the setting of financial and non-financial targets.

Governance philosophy

Absa is committed to the highest standards of governance, ethics and integrity. We seek to act in the best interests of our stakeholders and have adopted sound governance structures, frameworks, policies, procedures and practices in the operations of the Bank. In the course of the year, the Board has diligently provided oversight of these governance functions, ensuring their strict adherence and implementation. We believe that good governance contributes to improved performance, enhanced stakeholder value, transparency and accountability while providing clear proof of our commitment to adhere to our corporate values.

Directors' responsibilities

The Board's collective roles and responsibilities are primarily to:

- Establish and direct the Bank's strategy
- Deliberate and approve policy and planning
- Provide governance oversight and monitoring
- Ensure accountability

This is achieved through effective leadership and oversight of the Bank including strategy formulation and execution. The Board also ensures that it delegates the responsibility of the day-to-day management of the Bank to a competent executive management team. Other responsibilities of the Board include ensuring compliance to legislative and regulatory requirements, providing information and disclosures to stakeholders, protecting the interest of stakeholders and ensuring adherence to sound risk management practices.

Each Director is provided with a role profile and a charter of expectations upon appointment, documents which clearly outline the behaviour and competencies expected from them, including the expected time commitment for the role. On average, the time commitment for Non-Executive Directors is 30 to 40 days per year. Performance indicators are included in the role profiles to guide the Directors, and it is against these indicators that their individual performance is evaluated each year.

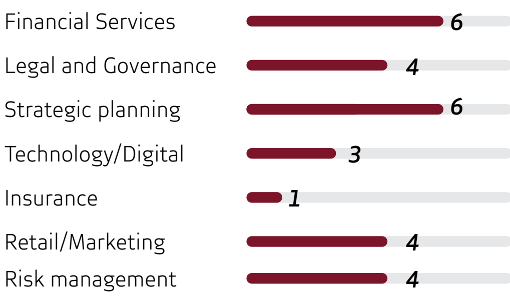
Board composition and diversity

The Board is currently composed of ten members. The majority of the Board members are independent directors, ensuring independent judgement and diversity of views and opinions, thus protecting and preserving the best interests of the Bank's stakeholders.

Approach and policy: the magnitude and complexity of the Bank influence our Board's composition and we strive to have adequate diversity to ensure robust governance, keen commercial decision-making and strong technical input. The Board regards diversity of perspectives at Board level essential to provide effective oversight over the setting and execution of strategy and the creation of value for stakeholders.

Board skills

Boards of financial companies require a wide array of skills to provide sound governance oversight, direct strategic imperative and create value for stakeholders. Board skills requirements are influenced by trends in the macro environment, the Bank's strategy and the need for strong thematic expertise and experience based on key stakeholder needs. Our Board skills profile showcases a diversity of knowledge, skills and experience as outlined below:



Board tenure

At each Annual General Meeting (AGM), one-third of the directors, who have been longest in office, retire, but are eligible for re-election. Where a new Board member is appointed, they hold office until the first AGM held after their appointment before they are eligible for re-election by the shareholders.

Policy: There is a staggered rotation of Board members to ensure sufficient knowledge, skills and experience are maintained on the Board, as well as to maintain continuity, while also introducing new expertise and perspectives.

Jeremy Awori
Executive Director and Chief Executive Officer

> ***2021 was an eventful year for us, as we continued to build the Absa brand in its second year of existence in the Kenyan market. The business remained resilient, posting impressive results despite the challenging economic conditions.***

Reflections from the Chief Executive Officer

The year presented significant milestones in our 5-year strategy towards the brand's sole purpose of bringing possibilities to life for all stakeholders while also validating that our Growth, Transformation and Returns strategy is working and able to carry our business even in uncertain times.

Execution in 2021

The pandemic's evolving impact compelled us to rethink our strategic priorities for 2020 and 2021. We took decisive steps to protect capital and liquidity, assisting our customers with loan moratoriums and restructures, fee waivers for digital transactions, and capacity building for SMEs, among other force-for-good initiatives. These decisions are paying off; our customer operations are more resilient, and our credit book quality and balance sheet strength have improved.

On sustainable growth, we grew our income under a tough macroeconomic environment. Our customer loans and advances grew 12% year-on-year to Shs 234 billion, with total assets at Shs 429 billion. We safeguarded Shs 269 billion of deposits for our customers, a growth of 6% year-on-year. Our income grew by 6% buttressed by a well-contained cost base, increasing our profit after tax by 161% year-on-year, which was the highest growth in our company's history. These financial successes reflected our collective efforts in executing our growth strategy, which included the launch of Absa Asset Management Limited (AAML), a fund and wealth management subsidiary that perfectly fit our growth ambitions of becoming a fully-fledged financial institution offering more diverse financial solutions beyond banking across the region. With a comprehensive variety of local and international capital markets choices, AAML is at the forefront of delivering investment services for Absa customers.

As part of efforts to support enterprise development, and in line with our diversity and inclusion agenda, we launched the Absa She Business account which aims to support at least one million women-led SMEs with both financial and non-financial resources. This account enables women entrepreneurs to access unsecured lending of up to Shs 10 million, facilitating access to financing and capital to grow and access local, regional and international markets. The proposition is built on four key pillars; access to finance, access to market, access to information as well as access to mentorship and coaching.

On Accelerated Transformation, 2021 led to a bold commitment to significantly invest in technology. The Shs 1.6 billion spend in modernising our technology and supportive infrastructure to position us favourably for the digital era while driving efficiency and improving customer experience is more than what had been utilised in the last two years combined.

Consequently, these investments are significantly driving our fee income, and digital adoption accelerated by COVID-19 with our digital transactions growing by 59% with 90% of all transactions currently being serviced via our alternate channels.

In line with our commitment to continue enhancing our customer experience, we upgraded our Timiza App making it more interactive and significantly reducing the customer journey and consequently, transaction time. We also introduced a goal-based saving feature where our customers can set their saving target at a certain amount and track their progress.

The Bank also introduced WhatsApp banking as part of its commitment to enhancing customer experience. Customers can now transact via WhatsApp including account-to-Mpesa/Airtel Money transfers, inter-account transfers, bill payments and balance enquiry, among others.

We have also significantly upgraded our internet and mobile banking platforms to include capabilities like digital loan top ups, debit card management such as temporary card freezing and unfreezing, card replacement, PIN setting and resetting, and card withdrawal limit management. In addition, we introduced NovoFX, a self-service platform to support our customers carry out out-bound foreign currency payments.

Transformative partnerships

Partnerships are becoming increasingly important in ensuring relevance, creating purpose, providing returns and customer value in an increasingly complex business environment. One of our main collaborations is in agency banking, where we teamed up with Postbank to deliver agency banking thus expanding our reach and propelling our quest for inclusive financing.

As Africa continues to innovate and grow, our strong regional presence and valuable network of international relationships continues to propel and support our clients' expansion ambitions. We continue to deliver capital market solutions for our clients in the currency and jurisdictions they need, and to contribute to the development of the Kenyan corporate bond market through our regional power house Corporate bank. We are proud to have acted as sole transaction advisor and bookrunner on the East African Breweries PLC (EABL) Shs 11 billion five-year medium term note issuance, listed on the Nairobi Securities Exchange (NSE).

This high-profile transaction, which attracted total bids of nearly Shs 38 billion representing an overall subscription rate of 345%, was the largest non-infrastructure corporate bond ever issued in Kenya.

In addition to concluded simplification of our processes and products propositions, we continue to invest in automation, robotics and to optimise operations and allow for digital front-ends, ultimately enhancing customer experience and delivering on evolving customer needs.

We believe our business is about people. Our transformation starts with people, with customers and colleagues being at the heart of everything we do while focusing on bringing possibility to life for our customers and the society. With that in mind, we introduced new ways of working, with a focus on building an aspirational, fun and vibrant place to work for our colleagues.

On Returns, our return on equity increased to 19% and is significantly above our cost of capital. This was supported by the strong growth in profits and well managed capital.

Brand building

In the second year since its introduction to Kenyans, we have continued to build our brand; it exudes energy and passion, reflecting Kenya's youthful population, progressive business sector, and dynamic markets, and is in line with our four core values: we drive high performance to achieve sustainable results; we are obsessed with the customer; our people are our strength; and we have an African heartbeat.

In 2021, we achieved key milestones in developing our brand for local relevance, with our brand awareness increasing to 92% and us ranking as Kenya's second most reputable bank. We are also recognised as the second brand in Kenya that is transforming lives and the number one brand in the financial sector as a result of our Force For Good initiatives and sustained support to our customers during these uncertain times.

There is nothing that resonates with our brand attitudes of Brave, Passionate and Ready like our athletic community and nothing says Kenya better than athletics. We thus continued to support our athletes in these tough times. For instance, this year we sponsored the Absa Kip Keino Classic with both local and international athletes participating and we are committed to continue supporting the community.

Our efforts in innovative and first-in-the-market propositions that are geared towards the underserved communities like the youth, MSMEs and women has led to us being recognised as the most improved brand in accessibility in Kenya.

Doing business responsibly

In addition to our sustainability agenda and commitment report which outlines key principles and initiatives that will help us build our business in a responsible and sustainable manner. We signed up to the Principles for Responsible Banking, pledging to connect our Bank strategically with the Sustainable Development Goals and the Paris Climate Agreement. We also joined the United Nations Global Compact as a signatory.

Additionally, we entered into partnership with The Kenya Private Sector Alliance (KEPSA) which is the implementing partner of Ajira Digital programme by The Ministry of ICT, Innovation and Youth Affairs to help equip one million young people with digital skills under our ReadytoWork programme thus increasing their chances for gainful employment.

Essentially, our sustainability agenda is a commitment to focus our efforts through our strategies, products, and propositions to achieve the triple bottom line of people, planet, and profit, and produce incremental shared value for all of our stakeholders. Absa has also been recognised as the first bank in Kenya to join the Kenya Green Building Society as a champion for initiatives that promote the green economy by reducing pollution and improving people's lives while fostering economic growth. The Bank was awarded first place in Energy Management Awards in the financial services sector.

Outlook

We have been working hard alongside our clients in preparation for a world beyond the pandemic and a more stable economic environment. Our businesses remain very well positioned to help our clients reposition for the recovery. In 2021, the economy is expected to recover and grow by 5.6% which will be the strongest post recession recovery in 80 years. This will be attributed to accelerated distribution of vaccines and opening up of the global economy. The sub-Saharan projections remain flat at 3.6% in 2021 and 3.9% in 2022. Kenya's economy will largely be supported by gradual recovery of the business environment, moderate recovery in services sector, and adequate agricultural sectors output.

GDP prospects remain optimistic as the monthly Purchasing Managers Index (PMI) has remained above 50, indicating an improvement in private sector activities. Restored services and hospitality sectors, improving manufacturing and transport services are key drivers to 2021 economic recovery. The World Bank projected that the Kenyan economy will grow by 4.5% in 2021. We remain cautiously optimistic given the dynamics that COVID-19 continues to present to Kenya and the globe and we will continue to work with our customers and clients to capitalise on opportunities that are present in this period.

Conclusion and appreciation

In conclusion, our strategy allows us to set a course of building on our Shared Growth agenda. As such, playing a shaping role in society is one of the key guiding principles for our purpose and strategy, at the heart of which is growth to gain market share.

I am grateful to the Board, shareholders, management, employees and customers for the confidence and trust bestowed in me and for the support provided in growing the business and look forward to our collective effort in bringing your possibilities to life while building our great nation.

Jeremy Awori
Executive Director and Chief Executive Officer

Our country management committee

Our country management committee

Our management committee is a diverse and experienced management team comprising the Chief Executive Officer, Chief Financial Officer and 12 other members in senior management.

Jeremy Awori
Chief Executive Officer

Yusuf Omari
Chief Financial Officer

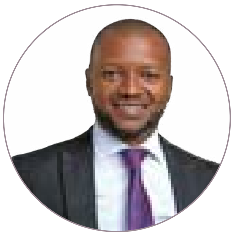
James Muchiri
Chief Operating Officer

David Hardisty
Retail and Business Banking Director

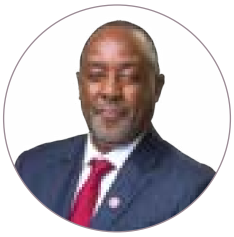
James Agin
Corporate and Investment Banking Director

Anthony Kirui
Director Global Markets

Mumbi Kahindo
People and Culture Director



Ken Kanyarati
Director Compliance and Legal



Chiera Waithaka
Chief Risk Officer

Christine Mwai-Marandu
Country Credit Director

Moses Musyoka-Muthui
Chief Strategy Officer and Head of CIB Finance

Anthony Mulisa
Regional Treasurer EA Director

Joshua Ndung'u
Regional Director and Chief Internal Auditor, Kenya

Detailed biographies of our Country Management Committee members are available on our website.

Yusuf Omari
Chief Financial Officer

"We successfully transformed our finance and procurement processes in the year and switched to an integrated, fully cloud-based solution under project Owari (signifying interconnectivity)."

Reflections from our Chief Financial Officer

Highlights

Total revenue
Shs 36.3bn
(2020: Shs 34.1bn)

Return on equity (Normalised)
19%
(2020: 14%)

Profit before tax (Normalised)
Shs. 15.5bn
(2020: Shs 8.8bn)

Net interest margin
7.3%
(2020: 7.8%)

Total capital
Shs 56.4bn
(2020: 51.9bn)

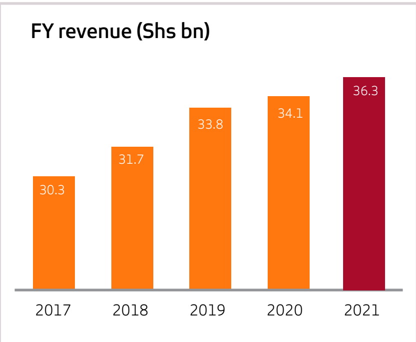
Dividend per share
Shs 1.1
(2020: Nil)

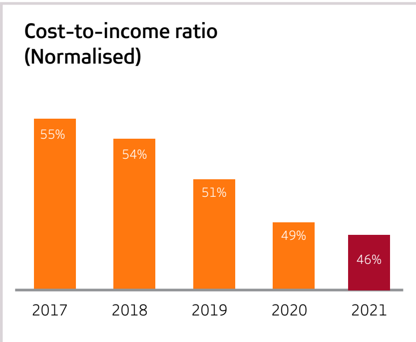
Cost-to-income ratio (Normalised)
46%
(2020: 49%)

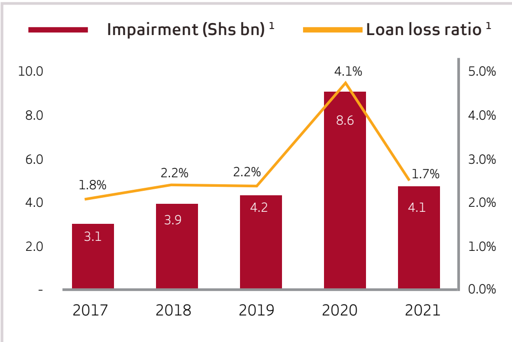
Loan loss ratio
1.7%
(2020: 4.1%)

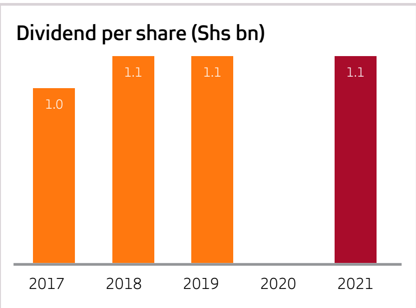
Earning per share
2.00
(2020: 0.77)

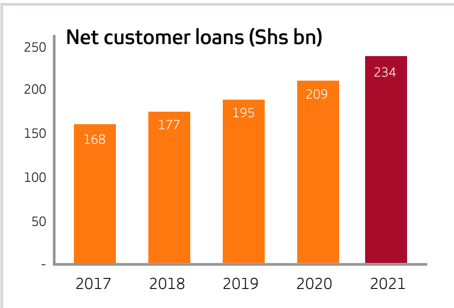
Risk weighted assets
Shs 328.7bn
(2020: Shs 297.3bn)

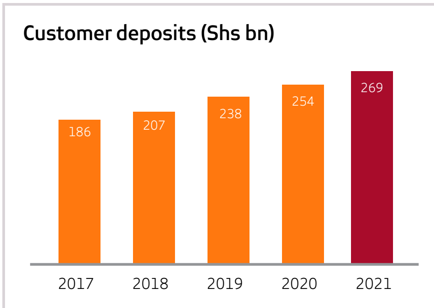


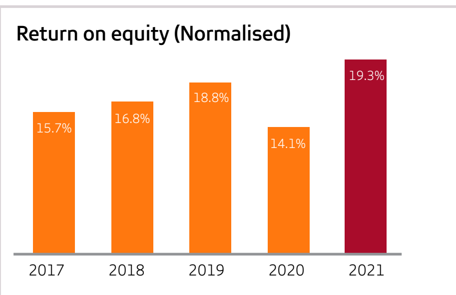












Over the past year, the COVID-19 pandemic continued to affect the global and Kenyan economy. The resurgence of the fourth wave of the pandemic earlier in the year caused by the delta variant led to partial closure of the country in a bid to stem the spread of the virus. Despite this, the economy continues to recover as the country resumes to normalcy with continued rollout of vaccination programmes, relaxation of containment measures and eased travel restrictions. We believe this government efforts will lead to increased business activity and better opportunities for the growth of our business.

Key macroeconomic variables are looking up after a depressed 2020 which saw the economy contract by an estimated 0.3%. Real GDP growth in 2021 expected to grow by 5.9% according to International Monetary Fund (IMF) backed by relaxed containment measures thus promoting economic recovery.

The Kenya shilling continued in the path of depreciation given cautious investor sentiment and a worsening trade balance as inflation edged to an average of 6.1% in the year driven by increased oil prices in the global market.

However, the banking industry witnessed improved performance in 2021 mainly driven by increased earnings and declining impairment charges, as result of improved economic conditions in the country.

Our long-term growth and transformation strategy remains the same and firm, we are prioritising our balance sheet optimisation initiatives, revamping our controls and investments in technology to create operational efficiencies and grow our business.

We successfully transformed our finance and procurement processes in the year and switched to an integrated, fully cloud-based ERP solution. This is an initiative to ultimately standardise and transform Absa's financial reporting and procurement processes across the 15 countries in which the Group operates.

Performance highlights

The normalised profit after tax was Shs 10.9 billion, published costs Shs 16.7 billion; published profit before tax (PBT) was Shs 15.5 billion.

Our return on equity was 19%. The performance was largely on account of growth in revenue, cost containment and decline in impairments.

Income statement analysis

Shs 'Millions	2017	2018	2019	2020	2021	Change (%)
Net interest income	21 801	21 992	23 179	23 381	**25 257**	8
Non-interest revenue	8 457	9 702	10 588	10 700	**11 043**	3
Total Revenue	**30 258**	**31 694**	**33 767**	**34 081**	**36 300**	**7**
Operating expenses	(16 782)	(17 178)	(17 285)	(16 647)	**(16 664)**	(0)
Pre provision profit	**13 476**	**14 516**	**16 482**	**17 434**	**19 636**	**13**
Impairment on loans and advances	(3 115)	(3 871)	(4 201)	(8 585)	**(4 087)**	(52)
Profit before tax	**10 361**	**10 645**	**12 281**	**8 849**	**15 549**	**76**
Exceptional items			(1 529)	(3 202)	**-**	(100)
Profit after exceptional items	**10 361**	**10 645**	**10 752**	**5 647**	**15 549**	**175**
Income tax expense	(3 435)	(3 230)	(3 296)	(1 484)	**(4 679)**	215
Profit after taxation	**6 926**	**7 415**	**7 456**	**4 163**	**10 870**	**161**
Normalised profit after tax	**6 926**	**7 415**	**8 516**	**6 524**	**10 870**	**67**

Revenue growth in line with economic recovery

The Bank posted a 6% growth. Our revenue sources remained well diversified with net interest income (NII) and non-funded Income (NFI) accounting for 70% and 30% of total revenue respectively.

NII increased by 8% to Shs 25.2 billion, despite declining yield on loans which dropped by 50 basis points. The drop is largely because of the 125bps CBR drop in 2020 to mitigate customers from effect of the COVID-19 pandemic.

NFI increased by 3% driven by growth in fees and commission on loans backed by increased disbursements in the year and bancassurance income, while the waiver on mobile money transfer fees is still in place to encourage use of electronic modes of payment.

Cost decline driven by automation and robotics

The Bank's total costs stood at Shs 16.7 billion which were flat year-on-year, despite the inflationary adjustments and heavy investments. However, included in 2020 costs were one off cost relating to separation and employee restructures which were not incurred in 2021.

This improved performance is because of our efforts on diligent cost management initiatives and improved operational efficiencies. Top of these initiatives are lower variable costs because of the automation of our processing centres, investment in alternative channels, and branch rationalisation programmes.

The total cost-to-income ratio decreased to 46% from 57% in 2020, while normalised cost-to-income ratio dropped to 46% from 48% in 2020. We are within our strategic goal to achieving of cost-to-income ratio of below 50% in the medium term.

Declining credit impairments

Impairment recorded a decrease of 52% from Shs 8.6 billion in 2020 to Shs 4.1 billion which is attributable reduced credit risk in the year as the economy continues to recover from the shock brought about by the pandemic. As a result, our loan loss ratio decreased to 1.7% from 4.1% in 2020.

Net non-performing loans (NPL) was 1.9% better than the industry average at 5.9%, while the average coverage ratio stood at 78% against the industry average of 62%; a true reflection of prudence and adequacy in provisioning

We continue to mitigate impairment growth by enhancing our underwriting standards and creating internal efficiencies on the collections and recoveries fronts.

Balance sheet analysis

Shs 'Millions	2017	2018	2019	2020	2021	Change (%)
Total assets	271 572	325 313	374 904	379 441	**428 722**	13
Net loans and advances to customers	168 397	177 354	194 895	208 855	**234 234**	12
Liabilities	227 474	281 107	329 715	332 936	**372 274**	12
Deposits due to customers	185 977	207 408	237 739	253 630	**268 717**	6
Total equity	44 098	44 207	45 189	46 505	**56 448**	21
Total equity and liabilities	271 572	325 313	374 904	379 441	**428 722**	13
Net advances to deposits (%)	91	86	82	82	**87**	5

Sustainable loan growth momentum

The Bank reported 12% growth to close at Shs 234 billion with year-on-year growth across all business segments.

Our key focus products namely general lending, trade, overdraft and mortgage recorded good traction with respectable year-on-year growth. The growth in loans was mainly driven by increased lending to Corporates and SMEs in the year in line with our strategy.

Key activities on building the asset book included strategic partnerships and leveraging on ecosystem banking to reach the wider customer population.

Steady deposit growth

Customer deposits grew by 6% to Shs 269 billion boosted by growth in transactional accounts resulting in an improved CASA ratio of 74% up from 73% in 2020. This growth has resulted to decrease in our cost funds by 13bps while interest expense on deposits increased to Shs 6.1 billion from Shs 6.0 billion in 2020. Although growth was recorded across all business segments, Corporate business was the main driver, a testament that our Corporate business proposition continues to bear fruits.

Strategic investments done on transactional banking front include Strategic Host-to-Host system, Biller System and Remote Cheque Capture; from which we expect to reap full benefits within the medium to long term.

Capital and liquidity remain strong

Our capital and liquidity ratios remain very strong showing sufficient headroom above the regulatory requirements. Our total capital adequacy ratio is at 17.1% and liquidity reserve position at 38.3% against the regulatory limits of 14.5% and 20%, respectively.

We do not foresee any adverse impact on our capital ratios and we are well positioned to support future growth in line with our strategy.

Outlook

Notwithstanding the positive progress made on the medical front through vaccination programmes targeting to vaccinate majority of the population, we have seen heightened political activity ahead of the general election to be held later in the year creating uncertainties in the macro environment.

We continue to be cautious and observant of the economic environment to align our operations to the market conditions. We have a strong and dedicated workforce in place to navigate our way through these headwinds and emerge stronger and more competitive into the future.

Given shifts in the business environment brought about by the COVID-19 pandemic in addition to uncertainties occasioned by the fast-approaching general elections, our immediate and topmost priority is to defend the core franchise while repositioning our business for growth through a strategy reset process. This entails further simplifying our strategy and refocusing its Growth, Transformation and Returns pillars towards Sustainable growth, Accelerated Transformation and Sustainable Returns.

To this end, we will spend considerable time and effort on the below areas in the next 12 months:

- Transforming our operating model to achieve operational efficiency and excellence.
- Accelerating technology investments to transform customer experience .
- Focusing on a competitive growth strategy to enable sustainable gain in market share.

Finally, the management remains confident that the Bank has the capital and liquidity strength to withstand any shocks and is committed towards delivering high return to shareholders and sustainable dividend payout ratios.

Yusuf Omari
Chief Financial Officer

Inputs required	Value created
Shs 210 million spent on community initiatives	**Successfully rolled out community projects** **Improved operational efficiencies**

For Absa, the protection of customer wellbeing, as well as the provision of tools and services, were regarded critical in developing our customers' levels of resilience during and after the pandemic, in order to build on our embedded value.

For this reason, our internal operations and the delivery of value to customers has focused on the acceleration of our digital agenda. This included the launch of new client delivery channels tailored to the SME sector, a key driver of economic recovery. We launched the upgraded Wezesha Biashara proposition, the She Banking Account for women owned SMEs, and banking services focused on supporting the agricultural sector.

Changes in the ways of banking (digital activities) has resulted in shifts in regulatory requirement, as well as new cyber security and fraud based risks requiring refresher training and awareness campaigns provided to customers ensuring their rights and wealth remain protected.

Ongoing support to our communities during these times is essential to ensuring the value created in society through our educational, vocational training, and contribution to their health and wellbeing allows communities to recover and build on strong foundations.

Support to SMEs

SDG 8 SDG 9 SDG 10 SDG 16 SDG 17

Inputs required | **Value created**

Our ecosystem banking model was enhanced in 2021, with a new programme allowing for the onboarding of new participants. We have seven dedicated corporate clients as part of our programme currently with two additional clients in pilot phase, and six others ready to sign up.

We provided working capital facilities to 210 SME suppliers and distributors, particularly those affected by the COVID-19 epidemic, so they could continue to serve these corporates.

A new Absa vendor finance programme was also rolled out in 2021, allowing the ease of tracking of goods and services delivered to the Bank. This allowed Absa suppliers to track their orders, and payments through the system in real time. This had the overall effect of lowering costs and improving efficiencies not only for the Bank, but for our suppliers as well.

The year noted increased partnerships focusing on the SME sector with the national government, the Kenya National Chamber of Commerce and Industry (KNCCI), the Catholic Church and diverse non-profit organisations working with us to support and grow the sector.

The partnership with KNCCI commenced in June 2021 involves an inter-county business training programme for women-led small and medium businesses focused on financial and business development skills. Overall, the performance of the SME sector continues to portray remarkable resilience with increased growth in our liability book driven by increased lending to this sector.

Specific support to the SME sector by Absa focused on the enhancement of our business loans, and upliftment of women-run businesses.

She Business Account

In the course of the year, we launched the Absa She Business Account with a commitment to impact over one million women entrepreneurs over the next five years with this new proposition through the provision of financial and non-financial solutions designed to accelerate business growth.

The She Business Account is targeted to women in business, particularly those in the SMEs sector , covering access in four key aspects, namely finance, markets, information and mentorship and coaching.

Through this proposition, women entrepreneurs can access unsecured lending of up to Shs 10 million, payable over five years for existing borrowers, and Shs 7 million for new borrowers payable in four years with a grace period of 60 days offered on a case-by-case basis.

In addition, access to mentorship and coaching, business advisory and online training is provided to enhance entrepreneurial and personal skills.

In 2021, we signed a partnership with Melanin Kapital, an impact investment platform to provide an investor readiness programme that will see startups in the social impact space gaining access to up to Shs 3 million in unsecured lending.

The programme aims to reach 1 000 women-focused startups and will provide value add services such as financial training, investment-readiness capacity building, structured mentorship, structured networking, and access to finance.

Wezesha Biashara

In response to SME client needs, we revamped Wezesha Biashara, our SME business loan proposition which now offers access to unsecured business loans of up to Shs 10 million payable in 72 months, LPO financing and invoice discounting of up to Shs 50 million and unsecured bid bonds of up to Shs 10 million.

We also offer 95% asset financing with a one-month repayment holiday. Additionally, the Bank launched the Wezesha Express Loan, a new proposition designed to speed up the turn-around-time for processing loans. Under this proposition, SME customers will access loans of up to Shs 3 million within 48 hours from application.

Wezesha Biashara has been a major driver of growth in the sector for us in 2021. We conducted awareness caravans through the major urban centres in the country, providing information and onboarding customers.

Additionally, repeat customers can now open digital accounts with greater flexibility through our technology-based portals, thanks to digital upgrades.

Support to the agricultural sector

The Warehouse Receipt Act (2019) was operationalised in 2021 through a raft of regulations. The concept of Warehouse Receipt System (WRS) financing resonates with our purpose of bringing possibilities to life. Agriculture in Kenya accounts for nearly 30% of GDP and employs close to 75% of the population, mostly in smallholder agriculture. Access to finance for smallholder farmers has the potential to transform agriculture in Kenya from subsistence and low-value activities into an innovative, commercially oriented, internationally competitive, and modern sector. However, farmers, especially resource-poor smallholders, are often unattractive credit candidates for financial institutions because of the unpredictable, fragmented, and unstructured nature of their agricultural activities.

The Warehouse Receipt System offers a solution. After harvesting, the farmer or trader can deposit a commodity in a certified warehouse and then be issued with a document of title called a warehouse receipt. The farmer or trader can then apply for short-term credit from a participating bank or other financial institution using the warehouse receipt as security for a loan, thus increasing access to finance for farmers.

Absa has been at the forefront, leading the banking caucus to develop the warehouse receipt financing structure and aims to be a market leader in this space. A pilot programme was launched in December 2021 with more substantive engagement anticipated in 2022.

Costs of banking

SDG 8 SDG 16

Inputs required | **Value created**

As a bank, a key resolve is to assist our customers in responding to challenges they face during their business and personal endeavours. This drives our value creation focus on the customer ensuring we provide solutions that are relevant and tailored to our customer needs.

Bank charges	After the regulations on waiver of charges were relaxed, Absa made the decision not to reinstate bank charges for clients. This decision impacted on our financial performance as a bank. To mitigate this impact, we renegotiated our contracts with our aggregators who charge for these services which enabled us to reduce our losses by 50%.
Insurance	Our customers were faced with a marked increase in fire insurance premiums due to regulatory changes in 2021. We responded by providing premium financing to cushion them from cash flow constraints.
Excise duty	Enactment of 20% excise duty in the year impacted on the cost of finance affecting customer loans.
High risk sectors	We paid special attention to sectors that are severely impacted by COVID-19 particularly the hospitality and tourism industries, maintaining conciliatory facilities to match their sector conditions. This approach has helped us to gain increased insight into our customer needs.
Ecosystem banking	As we gain greater insights, we are better positioned to provide meaningful support to individual businesses and increasingly to entire value chains through our ecosystem financing proposition ensuring that supply chains are financially empowered to operate efficiently.
Risk based lending	Future regulatory shifts anticipated include the move to the use of risk-based lending. When this regulation is enacted, it will allow us to price for risk benefiting all categories of customers despite their risk profiles. For high-risk customers, it will enable them to access financing which is currently limited, further benefiting less risky clients by allowing us to reduce charges to them.
Credit bureau	The requirement to cease registering customers with loans below Shs 5 million at credit reference bureaus is likely to continue to impact our business performance, especially in the retail banking space.

Responsible banking

SDG 4 | SDG 7 | SDG 8 | SDG 9 | SDG 10 | SDG 11 | SDG 12 | SDG 16 | SDG 17

Inputs required | **Value created**

Absa has identified the products that drive sustainable financing in the banking sector, and which of these are aligned with our client needs. To enhance the alignment of existing processes and products, Absa provided training to our regional managers to educate them around these aspects. This was done through webinars throughout the year. Although Absa does not have specific sustainable finance products on offer yet, we have identified our focus areas to pursue into the future.

We see a growing need for green buildings development, the enhancement of our ecosystem banking model to support corporates and their supply chains, provision of finance to facilitate businesses' implementation of sustainable interventions, as well as the need for green mortgages.

We are also looking into how best to provide sustainable financing solutions to start-up businesses, other than the provision of grant funding. This means determining models to support these businesses to grow beyond this initial capital injection. We understand that the risks associated with supporting this customer group is high initially, however if supported, they can become long term sustainable customers for the Bank.

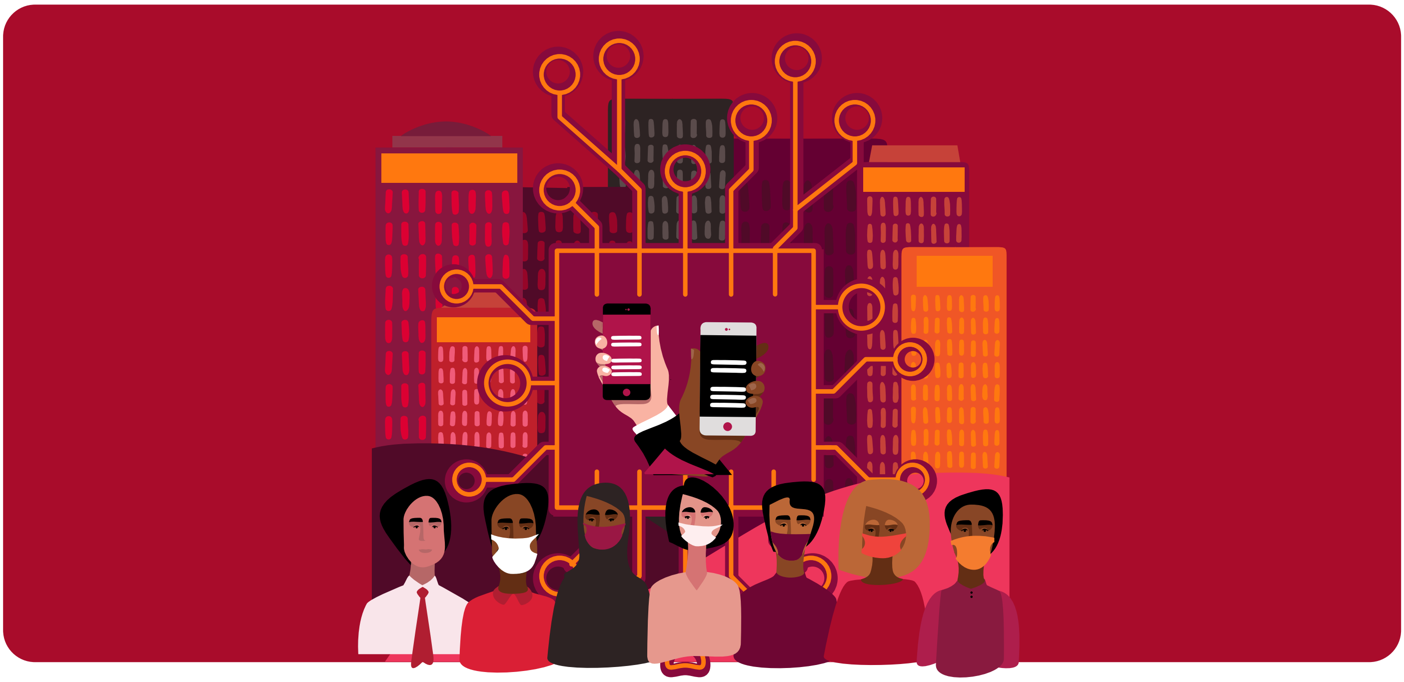
A key approach in this regard is unpacking how best to respond to these customer needs. The conversation has commenced internally, including the identification of knowledge gaps which allow us to better prioritise our response. We continue to engage with our customer base to align expectations and new product development within the banking environment.

One of the internal gaps identified the lack of specific skills to allow us to develop and manage sustainable finance focused products. Further, there is to develop strategic partnerships in this area to assist our clients with managing their needs and understanding their options..

Once the internal capacity has been strengthened in the Bank, we will be better positioned to develop products and services, including credit enhancements on existing facilities as well as credit guarantees sought after in the market.

Data protection

SDG 4 SDG 8 SDG 16



Inputs required | **Value created**

The Data Protection Act was enacted in 2019 to regulate the processing of personal data, protect the rights of data subjects and obligations of data controllers. The Act requires data controllers and processors to:

As a bank, our data protection performance has always been ahead of the requirements of legislation, with Absa aligning with Group processes which conform to international General Data Protection Regulation (GDPR) regulations and South African POPI Act. Over the last two years, we have upgraded the way that data is managed and utilised in tandem with global best practice, including establishing our chief data office in 2019 to provide leadership and guidance to our management and operational practices.

In 2021, we focused on four key strands of engagement to enhance approaches that required updating:

- Onboarding process updated to enhance customer understanding of data requirements and usage ensuring informed consent.
- Increased data protection protocols on new digital channels such as Timiza, ensuring client data is managed in accordance with our internal standards and regulatory requirements.
- Training colleagues on Data Protection modules. 1 995 collegaues trained in the year.
- Increase customer awareness and education around data protection protocols.

New types of fraud risks

SDG 4 SDG 8 SDG 16 SDG 17

Inputs required | **Value created**

COVID-19 accelerated our customers preference to utilise digital channels for their transactions. This shift, which is in line with our strategic priority to utilise technology to create value for customers, has resulted to new challenges. In the course of 2021, we noted a shift in fraud trends towards digital and card-based incidents unlike previous years.

In response, we proactively provided customers with information ensuring they were able to protect themselves from fraudulent activities and remain comfortable using our digital channels. This education was extended to our employees, who underwent anti-fraud training, with a specific focus on identifying how customers are being affected by social engineering and online phishing.

Awareness campaigns were launched in 2021 to educate customers of these new risks, and Absa implemented modern fraud monitoring solutions for digital and card fraud detection. These solutions are built on robust service-oriented architecture and use advanced analytic techniques that utilise both machine learning (ML) and artificial intelligence (AI) to weigh key attributes and identify fraud reliably.

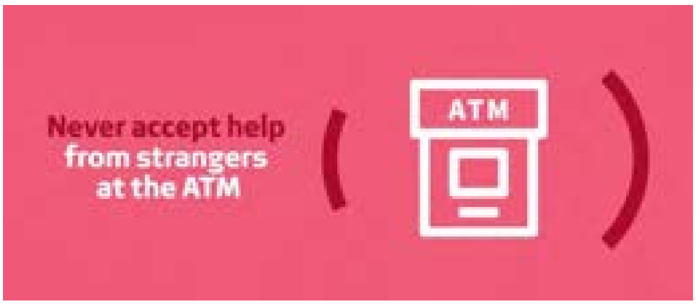
The business has also invested in multi-layered transaction authentication control like One Time Password (OTP), to complete card-not-present transactions. This is augmented by a highly skilled 24/7 fraud monitoring team.

The Bank provides diverse complaint channels, including call centre and social media platforms ensuring that customers can access the Bank whenever required without having to visit our physical premises.

Further, the Bank has invested in providing for quicker resolution of complaints ensuring that resolution is achieved on the first contact with the customer. Where this is not possible, the Bank seeks to respond to the customer complaint within 3 days.

We have taken additional measures to protect our customers and ensure we manage the risk of fraud adequately. Firstly, by collaborating with other banks and industry players, we have enhanced the levels of recoveries. In addition, all new product designed in the Bank take these new risks into account ensuring that customer protection is integral to product innovation.

- Gross loss YTD Shs 29 million
- Recoveries Shs 13 million
- Net loss Shs 16 million
- Fraud training sessions held for colleagues in 2021
- 97% of our colleagues completed mandatory annual fraud training
- Fraud sensitization SMS alerts sent to customers
- Social media posts sent targeting customers and the broader public
- Participated in fraud awareness campaigns spearheaded by the Kenya Bankers Association (Kaa Chonjo Campaign)



Supporting our community

SDG 4 SDG 8 SDG 15 SDG 17

Inputs required | **Value created**

Our ongoing outreach into the communities we serve has strengthened our brand recognition and trust in the market as customers want to be associated with companies who care about their communities.

ReadytoWork

We seek to reach one million youth in five years to upskill them with work readiness skills as they transition from institutions of higher learning into the work place. The programme targets youth aged 16-35 years old in a bid to prepare them for self employment and employment prospects. The programme is online and free and has 4 modules i.e. work, people, money and entrepreneurial skills. The programme can be accessed at: https://readytowork.absa.africa/

In the six years the programme has been in the country, we have reached over 200 000 young people in partnership with organisations such as CARE Kenya, Kenya Girl Guides Association, International Youth Foundation, University of Nairobi, Strathmore University, Ministry of ICT and many more.

ReadytoWork internship

We strive as an organisation to provide placements for young people after going through the ReadytoWork programme. The placements are done within the Bank and with our suppliers. As the interns are placed within or without the organisation, we provide a stipend to facilitate their learning and working experience.

Absa Bank scholarship

Absa has supported over 574 bright but needy students in 56 local university access education. The students are selected from 47 counties with gender representation and representation from PLWDs.

The scholarship provides for tuition, accommodation in a university accredited residence, upkeep and laptop. In addition to finances, we provide psychosocial support to students annually to support with their academics and social life in and outside the university.

We also offer the students opportunity to work within the Bank during their school holidays.

Computer lab donation and set up

As a responsible financial institution, we recognise the importance of setting a foundation of digital skills for the next generation. Therefore, we have set aside an investment of Shs 23 million towards setting up computer labs with upcycled computers to 66 schools across the country. We are leveraging the power of technology to assist in learning, imparting core skills, and developing the educational potential of young students in Kenya.

Wall of possibilities

As we celebrated our first year under the Absa brand, we asked the public to share initiatives that we should support from the community. All the nominations were shared on our Twitter wall or at the Queensway branch wall-hence the project name "Wall of Possibilities", aligned with our ambition to bring possibilities to life.

The best of three initiatives that met the criteria of; a pertinent issue affecting the society, a sustainable project and one that benefits a community would receive funding of Shs 2.94 million each to implement their project. The European Tour, participants in our golf tournament to celebrate our first year under the Absa brand, co-funded the project as part of their giving back to the community initiative, donating funding of Shs 3.8 million, thus enabling each of the three winners to receive Shs 2.9 million.

School tree planting programme

The school tree planting programme is an extension of the Computer for Schools project. During the handover of the Computer labs, we plant at least 100 trees (depending on space available and water). Trees planted were a mix of 50% fruit trees, indigenous and exotic trees.

Upcycled school bags and mask donation

As part of our rebrand exercise, we repurposed our marketing materials into school bags that benefitted over 4 000 special needs children in 46 schools across the country. We worked with the Ministry of Education and our branch network to identify special needs schools and benefitted other pupils in the exercise by donating over 20 000 masks.

Handwashing stations

We partnered with AMREF to set up handwashing stations in three schools in Kilifi county in the effort to spread information on COVID-19 prevention and handwashing practices. The handwashing station also support efforts in the area for the provision of clean water by capturing clean water in water tanks.

Water purification plant and machinery

We partnered with the Association of the Physically Disabled Kenya (APDK)-Bombolulu to construct a water purification plant in the area to supply community and residents with affordable clean water in the wake of COVID-19. We also bought machines for two of their workshops (tailoring and furniture) to economically empower young people with skills and machinery to start making a living. The organisation produced 20 000 masks that were donated to special needs schools at the peak of the pandemic last year.

Buckets of blessings initiative

We partnered with Christian Mission Aid to identify 1 000 families in Nairobi informal settlements and Kajiado. We donated food that would last a family for 52 weeks.

Seedling donation

We also partnered with World Vision and the County Government of Kitui to distribute seedlings for planting to farmers as a way for them to earn income and for food in the wake of the pandemic so as to offer reprieve to residents of Yatta subcounty, Machakos.

Matched fundraising initiative

Employees are encouraged to elect an initiative that they can support within their community. They fundraise towards the project for which the organisation matches shilling-for-shilling. Among the initiatives include; employees setting up handwashing stations in schools and churches, employees buying food and sanitary items in the wake of COVID-19, employees supporting medical fees and tuition for needy children in a community and many others.

Employee volunteering initiative

Annually, employees volunteer their time and skills to support young people or their community by providing . legal advice, work shadowing, financial advice, mentoring etc.

Programme	Funding provided
Upcycled school bags and mask donation	Shs 1.6m
Computer lab donation and set up	Shs 23m
Hand washing station	Shs 3.45m
Water purification plant and machinery	Shs 3.95m
Bucket of blessings initiative	Shs 2.1m
Seedling donation	Shs 4m
ReadytoWork	Shs 60m (since inception in 2015)
Absa Bank scholarship	>Shs 100m
Matched fundraising initiative	Shs 3m annually
Wall of possibilities	Shs 8.82m
School tree planting	Shs 213 000
Total spend	Shs 210m

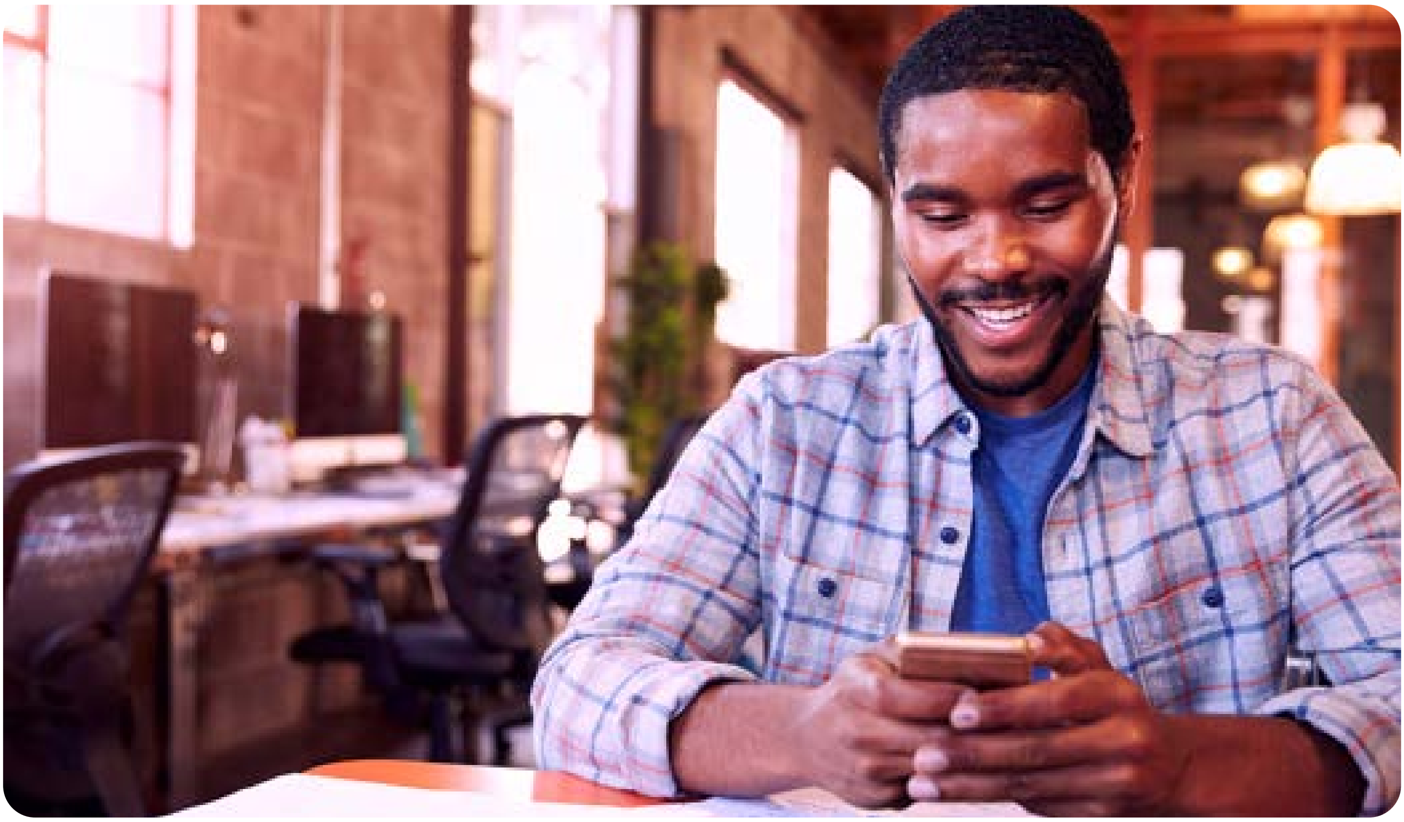
Inputs required	Value created
Upgrade to existing product platforms	**Improving customer experience**
Upskilling of employees	**Improved employee net promotor score**

To realise our strategy, we have focused on the automation of systems, and the simplification of the way we do things. This aims to empower us to become the most digital customer obsessed bank in Kenya. The modernisation of our banking platforms and digital capabilities has allowed us to respond to customer needs, personalising our proposition in the market, allowing customers to access services online, in a cloud-based environment, safely and efficiently. This was not only necessitated by the COVID-19 pandemic, but forms part of our corporate strategy signed off in 2018.

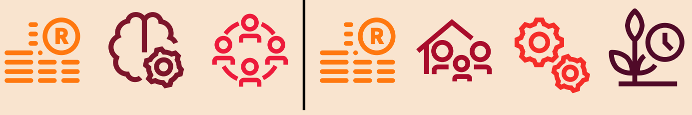
These process enhancements have not only benefited our customers, but our people, allowing them to work within the safety of their homes, while enhancing their own capabilities as we transition to a modern digital banking environment. Our suppliers have also benefited through these activities, with the upgrades made to our procurement processes, as well as the launch of bespoke training and development programmes aimed at empowering them to continue to align their service offering to the Bank's changing needs.

Improved customers' experience

SDG 4 SDG 8 SDG 9 SDG 16 SDG 17



Inputs required | **Value created**



Platform enhancements

Banking is changing technologically; this is creating new levels of functionality, value creation and operational efficiency. Absa is undergoing a transformation achieved through a series of platform enhancements targeted at simplifying banking operations and radically improving customer experience.

In 2021, we introduced a new future fit Microservices Architecture and Application Programming Interface (API) based integration layer. This fundamentally simplifies how banking systems interact. Additionally, we run a core banking system upgrade in the same period enhancing the levels of system stability and service reliability resulting in improved levels of customer satisfaction.

Further, all Absa employees have been operating on Microsoft Office 365 and Teams since July 2021. This migration has supported and enabled effective collaboration amongst colleagues during the 'work from home' period brought about by the COVID-19 pandemic.

In 2022, we target to accelerate the technology transformation, focusing and leveraging on cloud based technologies to benefit from speed, scalability and flexibility. These measures act as an essential enabler for business growth and sustainability. Key 2022 initiatives include, outsourcing our data centers to a collocated site to benefit from the associated economies of scale and reduction in operational overheads.

Additionally, in the first half of 2022, we shall transform our branch network technology to a Software Defined Network which shall deliver an optimised and efficient connectivity for our branches and ATMs. In parallel, we shall also progress Cloud Migration.

Enhanced levels of privacy and security

Cyber security remains a top priority for Absa and a key approach to our 'build' methodology, 'Secure By Design'. In 2021, we continued to invest in cyber security with the implementation of critical cutting edge software to assure further Bank security up to the end device level. This was a key measure to ramp up assurance as employees connected remotely and securely from home. We have internationally established security metrics that we track to ensure that our environment is within a safe zone and we seek to continuously improve as the cyber space relentlessly evolves.

We are cognisant that our partner ecosystem shall continue to grow and have established measures and thresholds for integration to our systems. We continuously work with our partners to ensure that they meet our requirements thus enabling our colleagues to work and meet effectively and supporting the overall safety of the Bank and our customers.

Further, we introduced secure files in 2021 enabling the reduction of backend processing time on applications and manual processing of files. This application was further advanced with the introduction of automatic file exchange which improves the level of data security, enhances encryption, and further reduces the amount of human input and error associated with manual handling of data. The implementation of these systems is still ongoing and once complete will enhance the secure exchange of files.

To enhance data privacy within the bank, all third parties working closely with client data were required to sign a privacy statement. In some cases, these parties were required to upgrade their systems to facilitate compliance with the Bank's protocols.

The regulator further required the roll out of Go email. This was integrated into our flex cube system, facilitating the monitoring of suspicious transactions. This allowed us to track, address and report on these transactions to the regulator in a timely manner.

In 2022, and in a bid to enhance the progress we have achieved, we will target to forge strategic partnerships with the aim of exchanging technical knowledge and driving innovation.

Improving our customers' digital experience

Stability of our system is critical to ensuring customers continue to bank with us. The increased demands on our systems during the COVID-19 pandemic has not stopped us from launching new products during the year.

This included the Timiza platform migration, the launch of the new Whatsapp Banking application and She Business Account. Timiza platform migration was necessitated by the need to cater for scalability and also offer new value propositions around digital wallet, lending and payment solutions. Timiza currently has 4.5 million customers with disbursements of Shs 8.2 billion and cumulative disbursements since launch in 2018 of Shs 36.4 billion.

WhatsApp banking (chat banking) was launched in June. This is a chatbot, dubbed Abby, powered by artificial intelligence and designed to provide 24/7 digital personal banker services.

Leveraging technology for improved efficiencies

The functionality and efficiency of our systems will be further enhanced by our cloud migration. We would not have been able to facilitate the level of remote access by employees and increase in the use of digital platforms by customers without this.

We were first in the Absa Group to migrate to the new SAP system. The initial migration saw some of our vendors removed from the system, but this problem was resolved quickly through close collaboration between the sourcing and finance departments. All vendors are now on one system, which allows the raising of purchase orders, the assessment of vendor performance, and the selection of appropriate vendors for a task based on prior performance, all incorporated in a singular system. The enhanced benefit for individual departments is the ability to link spend to budgets, giving departments more control over their finances. Finally, the use of this system creates a clear audit trail which strengthens our business processes and controls.

Force for good

Two focus areas for the Bank based on recent engagement with the regulator will see us focus on the development of initiatives aimed at enhancing access to mortgages, as well as the development of climate risk screening methods.

We have proven that this type of risk based screening and other approaches focused on sustainable banking practices are good for business. At Absa, this has already seen the integration of an environmental tool into our lending process for corporate deals.

Our Environmental, Social and Governance (ESG) officer in corporate is rolling out a programme to upskill relationship managers to identify key ESG risks when lending and mitigation strategies.

In addition, the Central Bank of Kenya has released a guidance note on climate risk management for the banking sector. Areas of focus to address climate risk included:

- Inclusion of climate risk in a banks' capital adequacy assessment processes,
- Alignment of climate risk to the banks' need to maintain long term value for clients, firms, economy and the environment,
- Ensuring alignment to the Kenyan Banking Sector Charter, namely, to remain customer centric, implement risk-based credit pricing, transparency and ethical banking.
- To this end, the CBK is requiring each bank to:
- Embed the considerations of the financial risks from climate change into their governance arrangements,
- Incorporate the financial risks from climate change into the Banks existing financial risk management practices, and
- Develop an approach to disclosure on the financial risks from climate change.

Absa acknowledges that the management of this process is the primary responsibility of the Board, with senior management focused on the quantification and determination of the exposure of the Bank to climate risk, with their outputs, including the development of a climate risk strategy for each division in the Bank, and the implementation of that strategy. Absa is in the process of developing these strategies and implementation plans, with the ultimate objective to release our first Task Force on Climate-Related Financial Disclosures (TCFD) report by June 2023

In addition, Absa is part of the Kenya Mortgage Refinance Company which is part of the Government of Kenya's effort to promote access to decent and affordable housing in Kenya, with the aspiration of delivering 500 000 affordable homes across 47 counties by 2022.

Based on a recent review undertaken by the Central Bank of Kenya, the capital adequacy weighting for all residential mortgages have been adjusted down from 50% to 35%. This has freed up capital for banks like Absa, which should increase our ability to provide mortgage lending in 2022.

Boma Yangu Platform

Kenyans contribute towards deposits to purchase homes

Kenya Mortgage Refinance Company (KMRC)

Availing long term and secured funds to primary mortgage lenders

Empowering our people

SDG 4 SDG 8 SDG 10 SDG 16 SDG 17

Inputs required | **Value created**

To embed sustainability across all facets of our business, we invested in upskilling our employees. The focus was on the provision of digital skills required to facilitate new product development, management of risks, and enhanced levels of customer engagement. Topics covered included:

Program	Numbers Enrolled
Emotional Intelligence Skills	1 951 - 98% of all employees
Art of Execution	1 912 Employees – 96% of all employees
Data Protection	1 955 employees(99% open to all Employees)
Fraud	1 962 employees (99% Open to all employees)
Absa Leadership Academy Programs	49 employees at management level
Masterclasses	622 employees attended 2 976 sessions
Sales Reskilling	25 employees –(Open Program for Non Sales Employees)
5 Thought Leadership	200 People Managers attended each session
14 People Managers	212 People Managers attended each session
5 Soul Food	Open to all employees
Moodys Credit Certification	66 employees in Credit, Corporate and Business Banking
Management Development	108 Branch Operations Leads

The various platforms utilised to provide this training included:

Learning Platform	No of Colleagues enrolled
LinkedIn Learning	324 employees
Absa Digital Platform	712 employer
Udemy	1 070 Colleagues
Josh Bersin	Available for all People Function Colleagues
Get Abstract	58 Colleagues
Microsoft Teams	1 979 colleagues – (Across different learning sessions)

The total hours of virtual training provided was 22 350, with 47% of participants being women and 53% men.

There were still challenges with employees working from home, mostly caused by the lack of consistent reliable power and data, which hampered connectivity to the banking platforms required to do their work. To overcome these challenges, technological solutions were deployed, with assistance provided to colleagues in setting up their own home offices or providing alternative work locations during power failures.

Additional training was provided to employees to manage the stressors of remote working. The focus with this training was to facilitate the building and strengthening of remote teams. This training was followed by care calls to employees, and the clear setting of targets and training on how to measure achievement against set goals. This was particularly important as objectives and targets set for the year were challenging. Scorecards were however assessed on a regular basis to track performance.

Various collaboration tools launched during the year have also assisted employees working remotely. These included Microsoft Teams and Outlook applications, as well as Facebook's workspace software. These tools facilitated meetings and performance tracking within the organisation.

Employee retention is important to us, not only does it show we are an employer of choice but allows us to build and maintain the momentum we have created in the market as an innovative and customer centric bank. The employee turnover rate for 2021 was 11.3%, which falls within the average for the banking sector in Kenya of 10%-15% as cited by PwC.

Strategies deployed to create a fun, vibrant and great place to work include:

- involving our people in squads and sprints,
- providing our people with stretch assignments,
- the creation of individual development plans and talent profiles via workday,
- implementation of leadership succession planning on CMC level, and
- deployment of effective contribution management across all levels of the organisation.

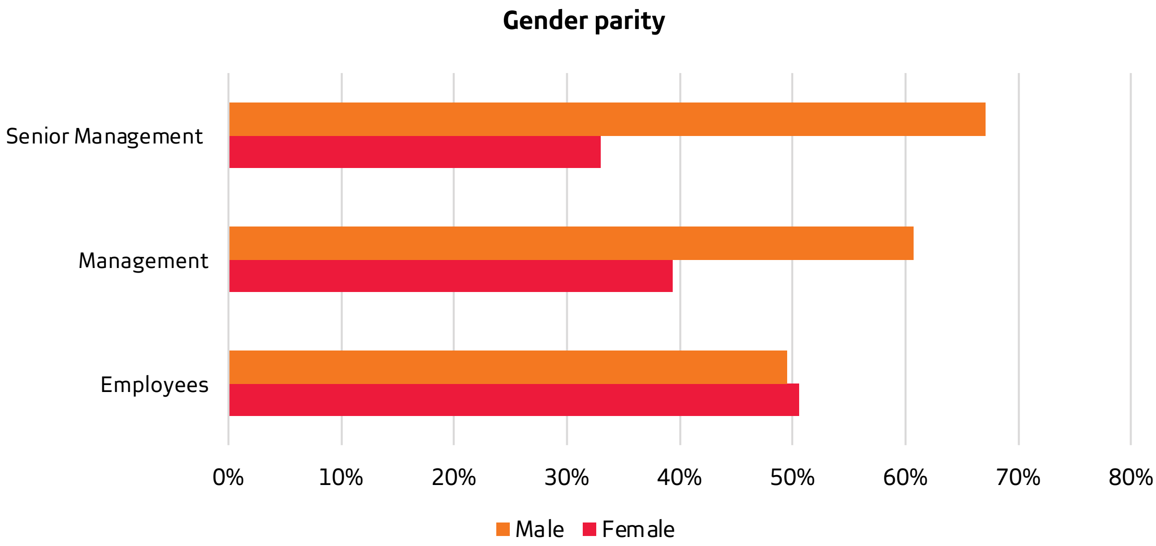
We continue to engage with our employees to align their needs with those of the bank. This has seen the development of a vaccination plan for all colleagues. This initiative was rolled out in collaboration with the Kenya Bankers Association and KEPSA, ensuring employees, as essential workers, are protected against COVID-19, leading to 80% of employees being vaccinated by close of the year.

Gender representation in the workforce, and specifically at senior management and Board level, has been driven by top leadership in the organisation. We have set targets for recruitment of women into these levels of the organisation. A diversity and inclusion team has been established to track performance in this area. They have assisted in rolling out key programmes to educate and capacitate teams to realise this change. These initiatives include the use of book clubs, the She Rises Mentorship programmes, HeforShe Mentorship programme, the XY programme, Soul Food and Thought Leadership sessions. Diversity and inclusion also focuses on the creation of opportunities for employment to the youth. Currently, 13% of those employed at Absa are below the age of 35 year of age.

We have made a strong commitment as an organisation to increase the role and influence of women in our business and the society. For us, diversity and inclusion are essential for business growth, and we have taken deliberate steps to promote the gender agenda within the organisation over the years.

Furthermore, gender diversity has been shown to be a proven enabler of improved financial performance; thus, gender equality is not just a nice thing to do; it is the right thing to do and a critical success factor that the business community should embrace.

We became a signatory to the UN Women Empowerment Principles (WEP) in 2020. Since then, we continue to embrace women empowerment as a business imperative. We commit to attain 50% women representation on board and management levels and achieve 30% supply diversity by onboarding new women owned business suppliers by 2025.



Several initiatives are in place to reward talent within the organisation. This takes the form of competitive pay, with increases provided to top talent, long-term incentives and differentiated short-term incentives also available. Other forms of formal and informal recognition for excellence are provided.

We are committed to respecting and upholding human rights in all our operations. These commitments are highlighted in the Absa Group Human Rights Statement, the Absa Code of Ethics, and the Employment Relations Policy. We recognise that responsible business can only be achieved in a society that upholds and protects human rights and we therefore seek to uphold all human rights principles in the management of all our business and stakeholder relationships. We are also making sure that we follow our human rights commitments in line with international standards and frameworks such as the UN Global Compact, by ensuring that they are embedded in our policies, standards, and frameworks.

Internally, the contractual rights and obligations of Absa and its employees are upheld in the organisation's employment practices, with specific consideration for health and safety, freely chosen employment, use of child labour, working hours, fair wages and benefits, freedom of association and diversity and inclusion. This ensures that the organisation operates within the prescripts of the local labour laws and does not infringe on human rights.

We are committed to consider material human rights impacts in the development and provision of products and services, and we continue to uphold our business dealings with everyone regardless of race, sex, nationality, ethnicity, religion, or any other status.

Enabling cultural change and brand building

SDG 8 SDG 10 SDG 16

Inputs required | **Value created**

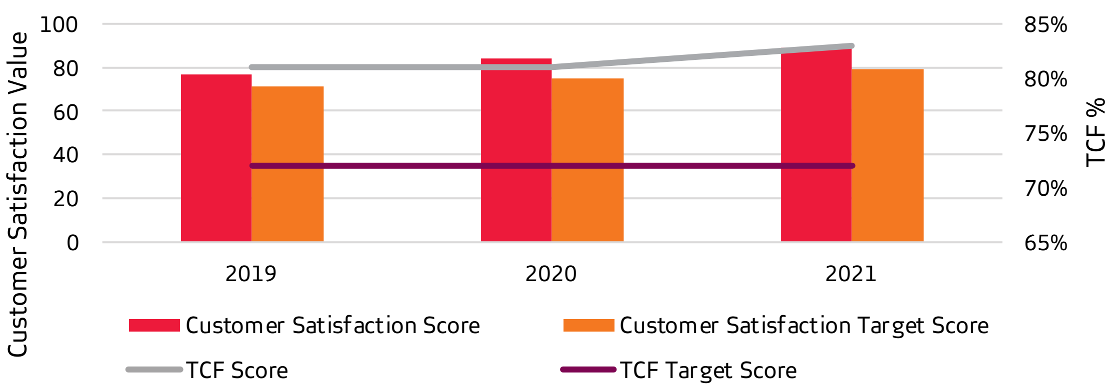
Building the capacity of our managers was key in transforming our culture to being entrepreneurial, innovative, and collaborative in nature. This approach was promoted through the development of open communication channels between management and colleagues. This shift in approach was noted through our employee engagement processes, which reported improved levels of engagement between our people and leadership resulting in a greater sense of inclusion. Town hall meetings create a sense of togetherness, emphasised as over 60% of our employees and are working remotely. In these town hall meetings, concerns raised in an open forum facilitate engagement and joint problem solving.

Issues raised in town hall meetings

- Employee mental, psychosocial and financial wellbeing
- Impact of COVID-19 to employee and family wellbeing
- Impact of Work from Home (WFH) arrangement to employee health and productivity
- Benefits offered to employees by the Bank
- Employee Assistant Programme (counselling services)
- Communicate activities

Our strong digitisation focus has been well received by front line employees, this has not only made their way of working easier but has made the onboarding of new clients seamless. Absa is conscious that we build our brand through our people and empowering them enables us to live up to our promise to customers of being able to "bring possibilities to life". Our employee net promotor score (ENPS) of 35% reflects the efforts of our front-line employees to provide reliable, efficient and tailored solutions to our customers. We are confident we are creating a brand that will be loved and trusted within the Kenyan market. This is mirrored by our customer satisfaction score of 79% and treating customer fairly (TCF) score of 83% achieved during 2021.

Customer satisfaction



Absa Bank Kenya recieved the top employer award from Top Employers Institute in 2021.

Resource efficiency

SDG 7 SDG 12 SDG 15 SDG 17 SDG 13

Inputs required	**Value created**

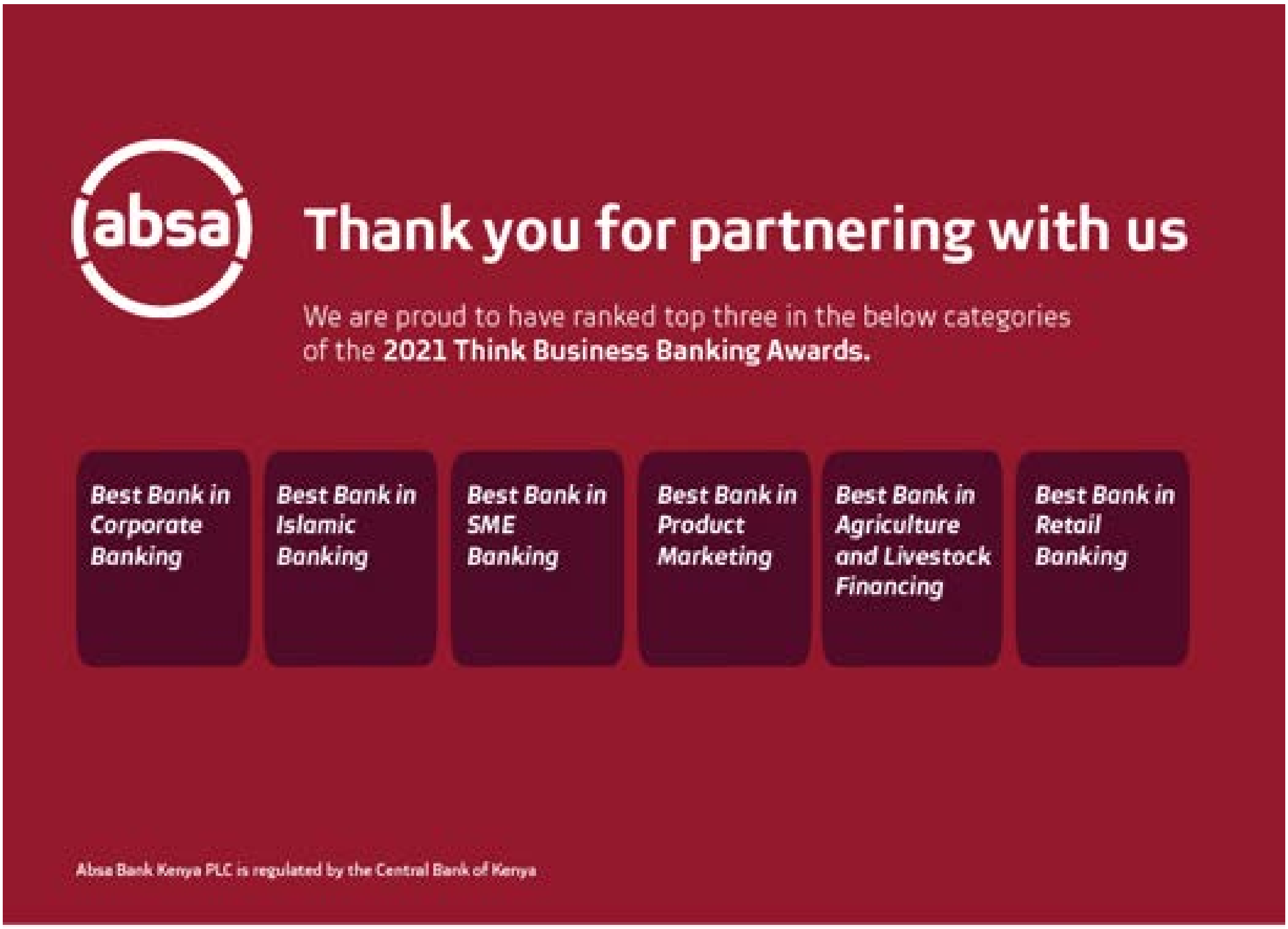
Various initiatives were implemented in 2021, aimed at enhancing our resource efficiency in the Bank. This focused on energy, water and recycling.

LED retrofit project

Initiative replaced old lights with power efficient lights and fand automatic controls to reduce power consumption, cut on power bills and manage our carbon footprint. Installation completed in December 2020. The 2021 activities involved snags closure, benefits tracking and documentation. The project cost Shs 32 million. Overall, 13% power efficiency was achieved against 2020 baseline or average Shs 1.3 million saved monthly with a Return On Investment (ROI) in two to three years.

EMA awards

This is an annual award scheme run by the Kenya Association of Manufacturers through their Center for Energy Efficiency and Conservation (CEEC). The purpose of the Awards is to raise awareness on energy management and more importantly, recognise and celebrate enterprises that have achieved outstanding energy savings and cost reductions through improved management and utilisation of water management and investment in renewable energy. We participated and emerged overall winners in 2021 under the financial sector category.



Think BUSINESS BANKING AWARDS 2021

Point of use drinking water dispensers project

The project entailed replacement of conventional bottled drinking water dispensers with ecofriendly bottleless on-site water purification units. Entire scope was run in three phases. Phase1 covering head office was completed in 2020 and phase 2 and 3 in Retail and Business Banking (RBB) branches implemented in 2021. The Overall objective was plastic bottle elimination from supply chain and avoiding emissions from transportation as a way of environmental conservation. Over 30% monthly cost savings was achieved against 2020 baseline.

Computer for schools project

This is an ongoing project with the aim of refurbishing and reusing over 1 900 desktop computers retired from the network under Brand Name Change (bnC) project. Under the initiative, 66 beneficiary schools were engaged to implement a computer lab equipped with 20 computers ready for use. This will ensure standard e-waste management whilst supporting quality education. This is coupled with tree planting to inculcate environmental conservation awareness among students.

Repurposing and recycling

Inputs required

Investing in new ways of working

Enhancing digital platforms

Value created

Strengthened systems

Improved customer experience

The diversification of our distribution channels has extended our reach, facilitating the response to specific needs in the market, notably in 2021, those of small businesses and women-owned businesses. This diversification was enabled through the enhancement of existing products on offer, as well as the launch of new products. Our digitisation agenda has supported these product enhancements and new product development. These enhanced propositions are informed by our understanding of our client needs and remaining locally relevant to the markets we serve.

Powerhouse Corporate and Investment Banking (CIB)

SDG 4 SDG 7 SDG 9 SDG 10 SDG 11 SDG 12 SDG 16 SDG 17

CIB provides products and services to large corporates, development organisations and public sector companies, in addition to engaging with the markets business. Our key strategy in this segment is to be the powerhouse Corporate and Investment Banking franchise and the undisputed leader in markets business as perceived by key stakeholders.

CIB performance

	2021 Shs' million	2020 Shs' million	Growth (%)
Net interest income	**4 835**	4 701	3%
Non-interest income	**5 190**	5 016	(3%)
Impairment	**121**	(1 918)	(937%)
Customer loans (Net)	**95 622**	77 649	23%
Customer deposits	**51 887**	46 878	11%

CIB strategy

Key business objectives

- Growing a sustainable powerhouse CIB business, within a robust control environment.
- Diversifying the growth agenda in our key focus segments, industry and client base.
- Drastically improving transactional banking digital platforms, ecosystem and customer experience, and scaling up the debt and investment banking offering.
- Maximising shareholder returns while positively influencing and impacting the communities and the environment in which we operate.

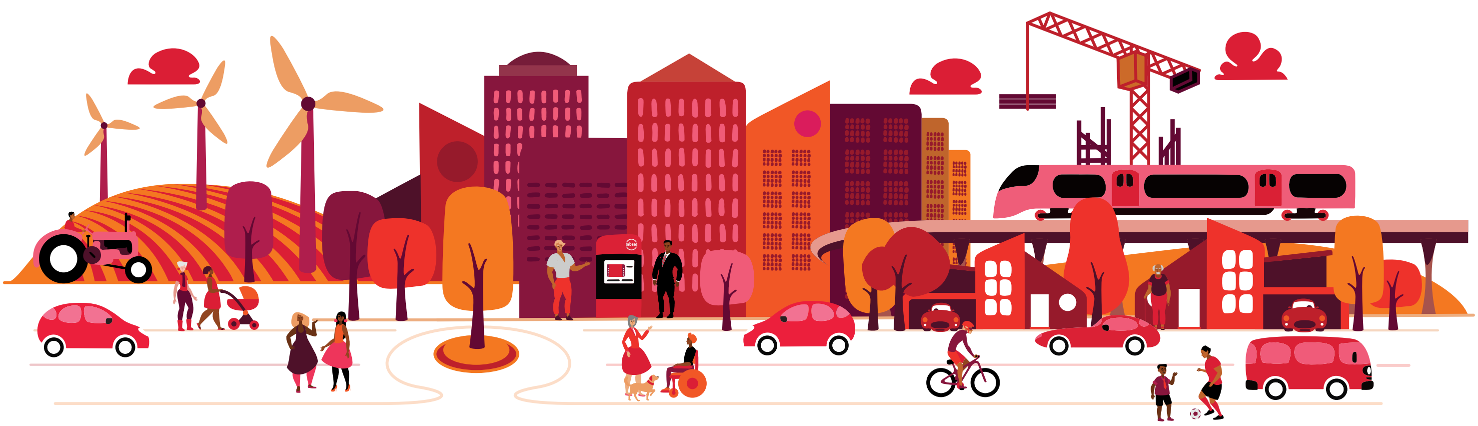
Strategy ambition

CIB strategic ambition is building a powerhouse CIB Franchise and Institutional Bank driven by 3 pillars and underpinned by 3 underlying capabilities;

Strategic Pillars	Transactional Banking	Debt and Investment Banking	Ecosystem Banking
Underlying Capabilities	Customer Experience	Strong Relationships	Robust Control Environment

Focus areas

- **Key focus sectors:** Manufacturing, agriculture, wholesale and retail, energy, oil and gas, telecoms and transport, services; education, tourism and health, property and real estate.
- **Focus customer segments:** Global Corporates, Global Development Organisations, Financial and Non-Bank Financial Institutions, Large Regional/Local Corporates and Public Sector.
- **Product expansion:** Structured Trade Commodity Finance (STCF), Fuel Open Tender System, Commercial Property Financing (CPF), Risk Management Products (RMPs), Ecosystems and Value Chains (ESD).
- **Digital platforms:** Integrated, end-to-end digital and technology enablement to support client experience, new products and efficiencies.
- **Data and analytics:** Transforming data into client value, proactively engaging clients via predictive analytics.
- **Thriving CIB organisation and people:** Innovation culture, inclusivity, diversity, high performance and productivity as well as colleagues value proposition and experience.
- **Shaping role in society:** Strategic partnerships with clients, thought leadership, education delivery and reform, and embedding sustainable development goals in core business operations.



Leveraged value	Enhanced value	Impact on business performance	Impact on society
Financial capital	• Investment in new cloud-based platforms.	**Operational improvements** • Enhanced efficiencies. • Reduced costs of banking. • Increased customer numbers. • Increased lending. • Increased deposits. • Enhanced employee wellbeing. • Enhancement of online applications providing more functionality. • Able to better track costs driving further efficiencies and cost reduction initiatives. • Faster execution of transactions. • Improved customer interface. • Enhanced responsible business practices. **Improved customer experience** • Making it easier to reach the Bank. • Customers becoming ambassadors for the brand.	• Enhanced cashflow management for corporate customers' supply chains. • Support to indirect job creation and economic growth through support to corporate customers' supply chains. • Increased access to banking solutions. • Wealth generation. • Wealth protection. • Enhanced levels of financial literacy.
Human capital	• Training provided to employees. • Capacitation of employees to continue to work remotely. • Provided digital online solutions to making working from home seamless.		
Intellectual and manufactured capital	• Successful transition of core banking platform to cloud-based solution. • Strengthening of systems, and enhanced levels of access and reliability.		
Social capital	• Ongoing engaged with the customer base • Enhanced KYC credentials to protect the customer and banking system. • Capacitation of the customer base on new fraud risk. • Enhanced data protection protocols to protect the customer.		

Looking forward

Ongoing diversification, focus on customer excellence, and responding adequately to customer needs in the market enhances our ability to make possibilities come to life. Growth in the SME space is expected to continue as we onboard more of our corporate customers' suppliers into our ecosystem banking platform.

Strong diversified Retail and Business Banking (RBB)

SDG 4 SDG 8 SDG 10 SDG 16 SDG 17

RBB provides personal and business services and products to individuals, medium, small and micro enterprises; non-governmental organisations and public sector institutions with a comprehensive suite of banking and insurance offerings, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products, and card-acquiring services.

RBB performance

	2021 Shs' million	2020 Shs' million	Growth (%)
Net interest income	**20 422**	18 680	9%
Non-interest income	**5 853**	5 684	3%
Impairment	**(4 208)**	(6 667)	(37%)
Customer loans	**138 612**	131 206	6%
Customer deposits	**216 830**	206 752	5%

RBB strategy

Our strategy pillars are centred on a customer promise of relevance, convenience and accessibility.

Strategic priority:

Strongly grow, diversify and transform the retail and business bank

Five pillars:

- **Product relevance:** rationalise our product offering to solution customer needs in insurance, flexible transactional accounts, mobile micro-loans, diversified card offering, unsecured lending and an expanded mortgage outreach.
- **Sales effectiveness:** scale our digital fulfilment to improve on productivity and cost efficiency driven by capabilities in data analytics.
- **Transaction migration:** develop enhanced digital capabilities that provide flexible and efficient service delivery with a drive for digital channels adoption by our customers in various segments.
- **Service and customer experience:** promote a service culture of easier, faster, better customer service through quarterly service improvement plans at regional and branch level, training and service recognition awards.
- **Relationship deepening:** increase engagements to drive retention and value based concessionary offerings through portfolio pricing in recognition of loyalty.

Leveraged value	Enhanced value	Impact on business performance	Impact on society
Financial capital	• Financial investments made. • Investment in new cloud based platforms.	**Operational improvements** • Enhanced efficiencies. • Increased customer numbers in SME and women segments. • Increase in lending. • Increase in deposits. • Enhanced responsible business practices. • Enhanced employee wellbeing. • Enhancement of online applications providing more functionality. • Able to better track costs driving further efficiencies and cost reduction initiatives. **Improved Customer Interface** • Brand strengthening amongst SME sector. • Reduced costs of banking. • Improved customer experience. • Making it easier to reach the Bank. • Customers ambassadors for the brand.	• Accelerated growth in SMEs. • Enhance marketability of SME sector. • Enhanced access to finance for women. • Increased access to banking solutions. • Wealth generation. • Wealth protection. • Supply chain capacitation and growth. • Enhanced levels of financial literacy in society. • Enhanced cashflow management for small businesses. • Increased access to housing finance. • Increased access to FX trade.
Human capital	• Training provided. • Capacitated employees to work from home. • New digital solutions making working easier.		
Intellectual and manufactured capital	• Transition to cloud-based system to facilitate strategy implementation. • Strengthening of systems to drive efficiencies. • Faster execution of transactions. • Enhanced Timiza platform. • Launch of She Banking platform.		
Social capital	• Engaged with the customer base. • Training of customer on fraud risk. • Enhanced KYC credentials. • Enhanced data protection protocols.		

Looking forward

We aim to continue to diversify the retail banking offering in the market. This will be led by ongoing engagement with our customers, ensuring we provide tailored products that are targeted at specific needs. Initial focus will continue to be on empowering the SME sector, as well as women-run businesses. Other focus areas include the provision of affordable housing solutions and maximising the provision of asset finance solutions.

Global Markets (GM)

SDG 4 SDG 8 SDG 10 SDG 16 SDG 17

Assist with the sourcing of foreign currency, ensuring the choice of the correct product or solution to suite a customer's international transacting needs.

GM performance

	2021 Shs' million	2020 Shs' million	Growth (%)
Net foreign exchange income	**3 123**	3 376	(7%)
Fixed income	**622**	629	(1%)
Brokerage	**129**	66	95%

GM strategy

Our mission is to build the greatest markets business in Kenya

Key business objectives:

- **To be the home of FX:** Achieve 20% turnover growth Year on Year, doubling revenue by 2023.
- **Transactions that transform markets:** To be the preferred execution partner in risk management products and solutions;
- **People:** Train the best, hire the best.
- **Full service securities offering:** Growing with our clients and becoming the fixed income powerhouse in Kenya.
- **Continuous market development:** Deepening our markets, creating economic value by developing a strong market-making capability.

Focus:

- **Product expansion:** Partnering with other financial institutions in the continent to expand our footprint into francophone West Africa. Collaborating with the Absa Global Limited countries to maximise customers' service delivery.
- **Digital platforms:** Broader transition to new Absa Group Limited banking platforms already took place in 2018. This has maximised solution provision in the market, with well-trained employees who have an established way of working with each other across the Absa Group.
- **Data and analytics:** Leveraging the capabilities of the recently established Data Office, we look to build on data and scientific insights to expand CVP.
- **Thriving markets business and people:** Developing a competitive EVP and attract the best human capital to meet the evolving market needs.
- **Shaping role in society:** Providing thought leadership and driving policy development through tools such as the Africa Financial Market Index (AFMI); a barometer of how Africa financial markets have performed, participating in key market associations including Bond Market Stakeholders Forum (BMSF) and Treasurers' Forum.

Leveraged value	Enhanced value	Impact on business performance	Impact on society
Financial capital	• Financial investments made. • Investment in Novo FX.	**Operational improvements** • Increased customer numbers in SME, agriculture, and women. • Reduced costs of banking. **Improved customer interface** • Improved customer experience. • Customers ambassadors for the brand.	• Enhanced access to markets. • Increased access to foreign currency. • Increased export revenue. • Increased access to foreign direct investment . • Increased access to banking solutions. • Wealth generation. • Wealth protection. • Enhanced levels of financial literacy. • Increase job creation. • Increased economic activities.
Human capital	• Continuous staff training. • Capacitation of resources for employees to work remotely.		
Intellectual and manufactured capital	• Transition to cloud-based system. • Strengthening of systems. • Development of warehousing receipt system.		
Social Capital	• Training. • Enhanced KYC credentials to protect customers and banking systems. • Data protection.		

Looking forward

Ongoing assessment of how to service different segments of the economy will continue to see us diversify the solutions offering in this area. We will continue to invest in propositions that provide increased access to international markets, either through the use of our services or leveraging key partnerships.

SDG 8 SDG 16 SDG 17

Maximised returns

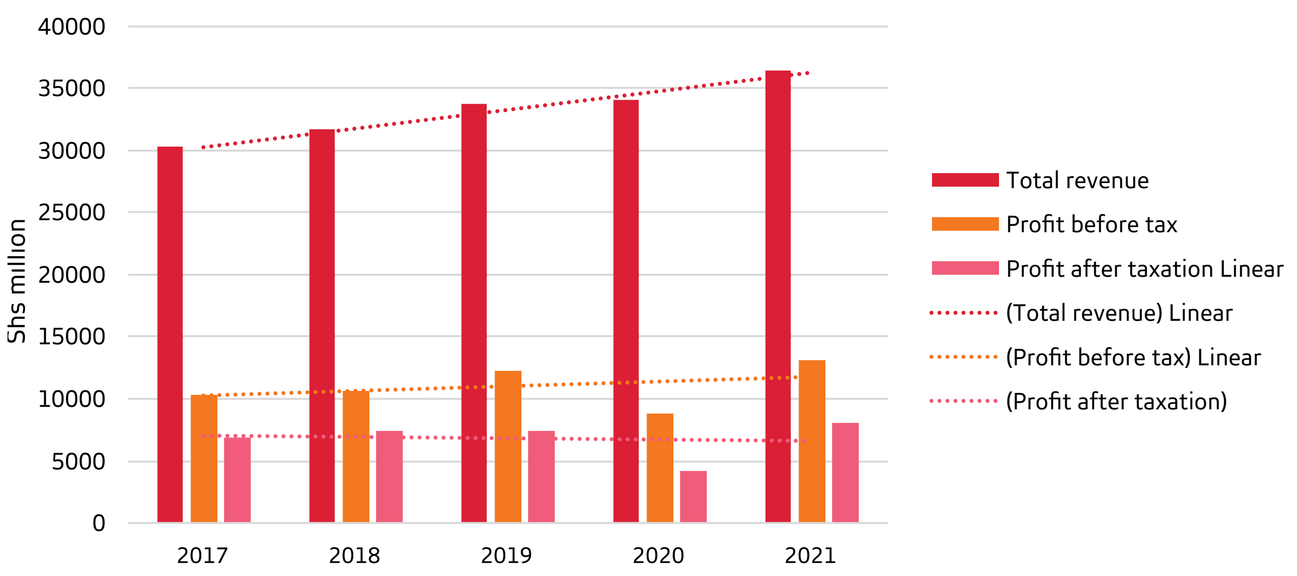
Steady growth in lending was noted year-on-year, driven through focus on increased lending to corporates and the SME sector. This was achieved through leveraging our ecosystem banking proposition. Similarly, increased deposits were driven by the corporate sector.

Profitability increased year-on-year by 16%, but it is acknowledged that the decline in profitability in 2020 was due to costs incurred because of the separation and employee restructuring, which were not incurred in 2021. Comparison of the 2021 profitability against 2019 results sees an 27% increase, indicating a move towards ongoing growth in margin in the long term.

This performance was driven in part by the ongoing efforts to reduce costs of operations, including the move to cloud-based solutions and implementation of new systems. Top of these initiatives are lower variable costs because of the automation of our processing centres, investment in alternative channels, and branch rationalisation programmes.

The total cost-to-income ratio decreased to 46% from 57% in 2020, while normalised cost-to-income ratio dropped to 46% from 48% in 2020. We are within our strategic goal to achieving our cost-to-income ratio of below 50% in the medium term.

Year on year financial performance



Governance and risk management protects against erosion of value. Our robust risk framework provides protection from evolving and traditional risks, ensuring we proactively protect our stakeholders. In addition, regulatory compliance is a key facet of our business practice underpinned by our engagement with our regulators and our commitment to full regulatory compliance.

The Board of Directors provides oversight ensuring that our business practices and conduct is within the defined parameters and focused on sustainable value creation. By ensuring we operate with the highest levels of stringency, observing ethical values and compliance with legal and regulatory requirement, we preserve the value of the Bank and reduce the risk of value erosion.

Compliance and regulatory performance

Absa is anchored on a strong heritage of ethical conduct underpinned by fair customer outcomes, market integrity, collaborative regulatory relations, and sound financial crime controls. 2021 can be characterised as the year of resilience and recovery with our management of Conduct, Reputation and Financial Crime Risks playing a vital role in ensuring that we continued running a responsible business during the COVID-19 pandemic.

Conduct risk

Conduct risk is the risk of detriment to Absa, its customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including instances of wilful/negligent misconduct, unethical behaviour and the failure to manage regulatory relationships.

Towards the end of 2020, the Board approved the revised conduct risk framework which introduced a set of 36 metrics against which our conduct risk appetite is to be measured. Measurement of the new conduct risk metrics began in 2021. Our performance against the six key risks during the year was at target and stable.

Key risk	Definition
Ethics risk	The risk that Absa fails to take reasonable steps to ensure its culture, strategy and governance promote ethical behaviour, and the risk that Absa employees, third parties and stakeholders engage in practices (behaviours) that are in contravention of the Absa Way Code of Ethics.
Product risk	The risk that Absa fails to take reasonable steps to ensure the design of products and services promote positive customer and client outcomes, market integrity and effective competition.
Data privacy risk	The risk that Absa fails to take reasonable steps to ensure adequate protection and authorised use of personal data
Customer engagement risk	The risk that the engagement of customers during solicitation of customers, sales and post-sales is conducted in a manner that causes or has the potential to cause detriment to customers.
Regulatory engagement risk	The risk that Absa Bank Kenya PLC may damage its relationship with regulators by not engaging proactively, constructively and transparently. This includes not properly managing regulatory commitments.
Market integrity risk	The risk that Absa Bank Kenya PLC engages in dishonest trading practices and provides vague corporate or price information and unequal access to the markets.

Highlights of some of our initiatives under our conduct key risks are as follows:

Ethics risk

To get an in depth understanding of the Bank's ethical culture and behaviour, we undertook the first employee ethics survey in 2021. The outcome of the survey formed the basis of our Ethics Risk profile which will determine our ethics strategy going forward.

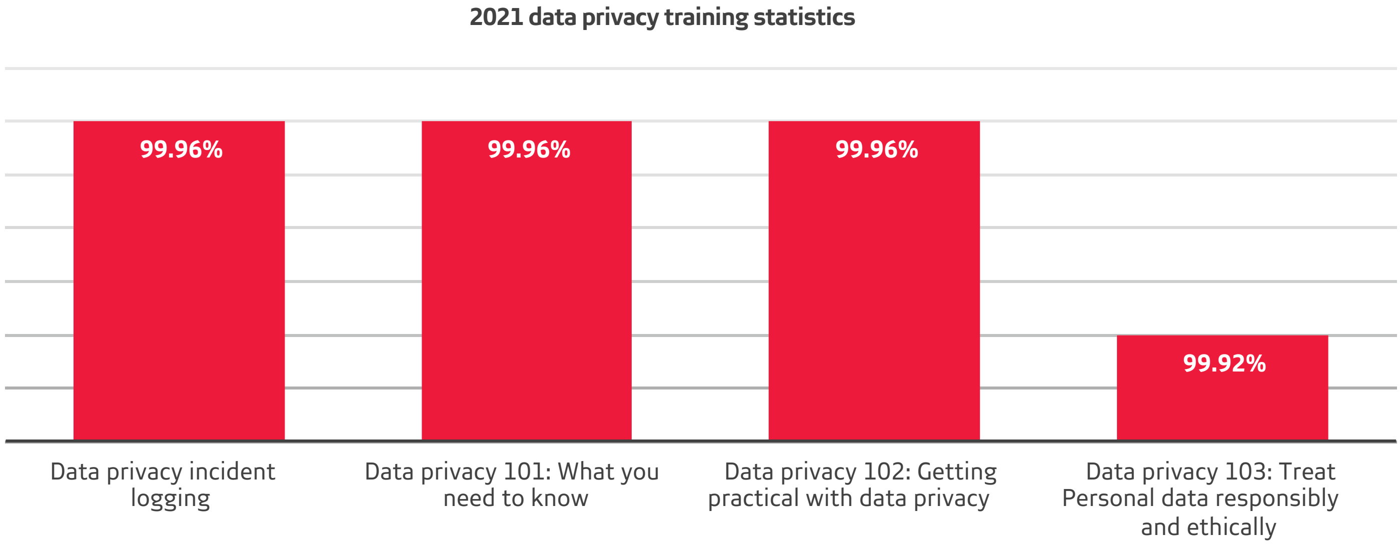
We were also very intentional about creating awareness of ethical principles with trainings having been provided to all Board members and employees. All employees were required to undertake the Absa Way Code of Ethics training. The Absa Way defines the way we think, work and act at Absa to ensure that we enable our clients and other stakeholders bring their possibilities to life. The Absa Way applies to all Absa employees, customers/clients, suppliers, and other related third parties, including subsidiaries in which Absa has a controlling interest.

Data privacy

Data privacy was a priority area as we strive to become a digital bank. We continued to ensure that we are compliant with the requirements of the Data Protection Act, 2019 (DPA). Key achievements include

1. We set up a Data Working Group as the governance forum responsible for data protection, and
2. Appointment of a Data Protection Officer and Data Protection Controller. As an organisation, we remain committed to ensuring compliance with the data protection requirements and we continue to align our processes in line with the guidance received from the Office of the Data Protection Commissioner.

To ensure employees are aware of their rights and obligations with regards to data privacy, all employees were required to complete four modules of data privacy training. Our average completion rate was 99%.



Full implementation of the DPA will require three regulations to be published by the Office of the Data Protection Commissioner. In 2021, the Office of the Data Protection Commissioner published the following Draft Regulations and Guidance Note for public comment:

- A Guidance Note on Consent, focused on how Data Controllers and Data Processors are required to obtain consent for the collection, use and disclosure of personal data.
- Data Protection (General) Regulations, 2021,
- Data Protection (Compliance and Enforcement) Regulations, 2021 and
- Data Protection (Registration of Data Controllers and Data Processors) Regulations, 2021.

Regulatory engagement risk

Absa and its subsidiaries were not subjected to any regulatory sanction in 2021, a confirmation of our commitment to ensure compliance with all our regulations and a collaborative relationship with all our regulators.

Developments at lands registry

Some of the notable changes that were introduced in an effort to improve efficiencies at the Lands Registry in 2021 included, but are not limited to:

1. National Land Information Management System (NLIMS)

A National Land Information Management system known as Ardhisasa was launched to digitise land transactions with the aim of curbing fraud and corruption and speeding up land transactions. Once fully implemented, we expect this to introduce efficiencies in the registration of land transactions resulting in faster bank securitisation and customer drawdowns.

2. New Land Title Conversion Process

The Cabinet Secretary for Lands and Physical Planning announced the government's plan to roll out a standardised and unified land register through the conversion of land titles from the previous legal regimes to the current legal regime provided for under the Land Registration Act, 2012 and Land Registration (Registration Units) Order, 2017. The objective is to simplify and consolidate different forms of land registration and eliminate malpractices in land transactions.

Other regulatory developments

Several new regulations were introduced in 2021 and as a responsible bank, we put in place the required controls to ensure compliance. Some of the key regulatory changes were:

Legislation	Intention of legislation	Our response
CBK Circular 2 of 2021 – Amendment of Risk Weight for mortgage loans	Changed the risk weight of residential mortgages fully secured by first charge from 50% to 35%. The aim of the amendment being to free capital for banks to increase their mortgage lending.	Absa effected the reduction of the risk weight from 50% to 35% from 1st July 2021, with a view of improving the uptake of mortgage products.
The Business Laws (Amendment) (No.2) Act, No. 1 of 2021	The Act amended various laws whose intention was: **a) Companies Act, 2015** – Amendment provided for virtual meetings by amending the definition of "general meetings" to include physical, hybrid or virtual. **b) Law of Contract Act** – Amendment aligned signing requirements for contracts for disposition of an interest in land (sale agreements, leases, transfers, licenses, etc.) to new requirements under section 37 of the Companies Act, 2015 for body corporates incorporated under the Companies Act, 2015. **c) Small Claim Courts Act, 2016** – The Act provides for fast tracking of small claims by providing for a 60-day timeline for adjudication of such claims. **d) Stamp Duty Act** – The Act exempts land sale agreements from payment of Shs 100/- fixed stamp duty. **e)** Payment dates for PAYE, NSSF, NHIF and NITA have all been aligned to 9th of the subsequent month.	Absa has aligned to the various legislative changes to ease doing business as follows: **a) Companies Act, 2015** – Provided capacity and technology that enabled virtual shareholder and other meetings. **b) Law of Contract Act** – Made requisite changes to enable business to be conducted in line with the changes i.e. to remove the need for sealing of documents with a Company Seal. **c) Small Claim Courts Act, 2016** – We are, with support of our external advocates, arranging to re-direct the cases that meet small claims requirements to the Small Claims Court and ensure fast tracking of small claims within the stipulated 60-day timelines. **d) Stamp Duty Act** – Incorporated changes within its processes to exempt land sale agreements from payment of Shs 100 fixed stamp duty. **e)** PAYE, NSSF, NHIF and NITA payments have been internally aligned to be submitted by the 9th of the subsequent month.
The Employment (Amendment) Act, No. 2 of 2021	The Act amends the Employment Act, 2007 (the Employment Act) to provide for one-month pre-adoption leave with full pay.	Absa has aligned its internal employee policies/standards to align to the one-month pre-adoption leave with full pay.
Finance Act 2021	The Finance Act, 2021 became effective on 1st July 2021. It provided that all fees and commissions related to loans be subject to Excise Duty at a rate of 20%.	Absa communicated this requirement to its customers and effected the changes.
Climate Related Risk Management Guidelines	CBK's intention is to ensure banks implement climate-related risk management practices.	Sustainability is a principal risk in Absa's Enterprise Risk Management Framework. Climate-related risk is a sub-risk under sustainability. Absa has started to incorporate sustainability as part of its strategy. Embedment of the requirements of the guideline is ongoing with the intention to meet the set regulatory deadlines.
CBK Press release on suspension of listing of negative credit information for borrowers	Suspend for a period of 12 months listing of negative credit information of borrowers with loans below Shs 5 million. This is specifically for loans that were performing previously but have become non-performing from 1st October 2021.	Absa shall not blacklist customers with loans below Shs 5 million that fall in arrears from 1st October 2021 to 30th September 2022. No negative credit information for borrowers with loans below Shs 5 million shall be shared with the Credit Reference Bureaus during the period of this directive.

Subsidiary regulatory developments

- Absa Bank Insurance Agency Limited (ABIAL) changed its name to Absa Bancassurance Intermediary Limited in order to comply with the requirements of the Insurance (Bancassurance) Regulations, 2020
- Absa Asset Management Limited was awarded a Collective Investment Scheme (CIS) License by the Capital Markets Authority

Financial crime

Fighting financial crime continued to be a key focus area for the Bank in 2021 through the enhancement of our systems and processes to protect our customers and the Bank while supporting innovative industry initiatives.

We continued to support the business and our customers throughout the COVID-19 outbreak, while ensuring that controls remained effective to manage financial crime risk.

We implemented changes to our Flex Cube core banking system to enable automated monitoring and reporting of cash and suspicious transactions by goAML. This enables us to maintain a robust control environment that effectively manages the risks of money laundering, terrorist financing, sanctions, bribery, and corruption whilst at the same time complying with country regulations/laws and Group policies.

To ensure that we play our part in protecting our customers, the integrity of the financial system and the reputation of Absa, we continued to work closely with our regulators and industry stakeholders to manage financial crime risk. As a player in the financial services industry, we have provided our comments to the Proceeds of Crime and Anti-Money Laundering (Amendment) Bill, 2021.

Finally, to ensure that our employees also remained aware of their responsibilities regarding the management of Financial Crime, we administered the preventing financial crime training which covers Anti-Money Laundering (AML) risk, Anti-Bribery and Corruption (ABC) risk and Sanctions risk. We achieved a completion rate of 99.88%.

Reputation risk

Upholding our reputation as a responsible bank and protecting the interests of all our stakeholders is at the heart of all our decisions. In 2021, we embarked on a journey to embed the Reputation Risk Framework across the business. To this end, we trained the Board and all employees, identified our reputation risk key indicators and commenced quarterly measurement and reporting of these. Compliance has oversight of reputation risk. Governance of reputation risk is done through the Reputation Risk Committee with escalations to the Executive Risk Committee and ultimately the Board Audit and Risk Committee.

Risk statement

Absa is exposed to internal and external risks as part of its ongoing activities to create value for stakeholders; managing risk is a critical underpinning to the execution and realisation of its strategy. These risks are managed as part of the business model, through alignment of the risk appetite to changes in the operating environment, instilling a risk-aware culture throughout all levels of the Bank and proactively adapting and improving our risk management capabilities.

Risk management overview

Capital ratios were stronger year-on-year driven by improved earnings and optimised management of risk weighted assets. Liquidity remained resilient and within risk appetite enhanced by relief measures provided by the Central Bank of Kenya.

Credit loss ratios improved as economic activity was gradually restored and the macroeconomic landscape improved. This was further supplemented by improved debt collection performance and the benefit of model and technology enhancements.

Despite higher levels of business activity in comparison with the prior period which was impacted by lockdowns and curfews; operational risk losses remained within budget.

Risk management priorities

- The Bank's operating environment is expected to improve however, the management of risk, liquidity and capital remains a priority into 2022.
- Maintain heightened focus on operational resilience and proactively identify and mitigate internal and external risks arising from the COVID-19 pandemic and upcoming General Elections.
- Maintain a diversified credit portfolio in terms of key concentration dimensions, such as individual counterparties, geographies, industries, and collateral.
- Align risk objectives to support our customers and in an efficient, responsible and sustainable way.
- Improve control, efficiency and operational resilience across critical processes including collections, data management, disaster recovery and financial crime.
- Engage regulatory authorities and other stakeholders on upcoming regulatory changes, to ensure the most appropriate outcomes for the banking sector and broader economy; and
- Evaluate quantitative and qualitative implications of implementing Basel III enhancements and proposed amendments to the regulations relating to banks.

Risk management approach

Our risk management approach ensures a consistent and effective management of risk within a risk appetite approved by the Bank's Board of Directors while providing accountability and oversight.

To evaluate, respond to, and monitor risks, the Bank uses a comprehensive process that includes identifying and assessing the risk, choosing an appropriate response, and monitoring the success of the response and the resulting changes in the risk profile.

Evaluate
identify and assess the potential risks.

Respond
- Mitigation;
- Risk transfer; and
- Ceasing activities

Monitor
Ensure that risk profiles remain within agreed appetite levels.

The Enterprise Risk Management Framework (ERMF)

The Bank's core purpose, its risks and opportunities, strategy, business model, performance, and sustainable development are all inseparable elements of the value creation process, with alignment critical to long-term success.

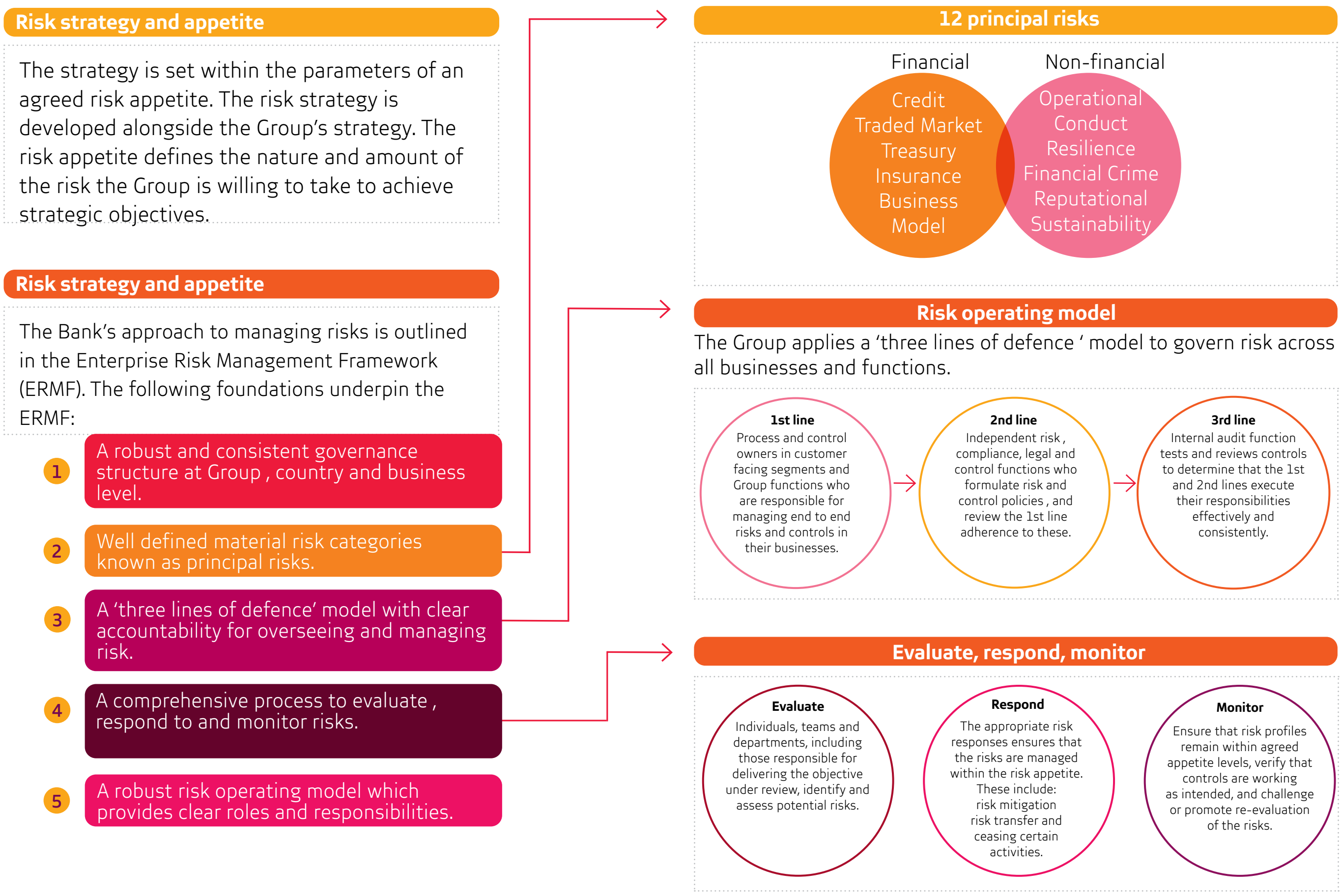
The ERMF sets the strategic approach for risk management by defining objectives, standards and responsibilities for all areas of the Bank. It is then approved by the Bank's Board on recommendation of the Chief Risk Officer. It supports senior management in effective risk management and developing a strong risk culture.

The ERMF outlines the following:

- The need for segregation of duties by defining the Three Lines of Defence,
- Identifying the principal risks faced by the Bank,
- Risk appetite requirements, which defines the level of risk the Bank is willing to undertake in pursuance of its strategic objectives,
- The roles and responsibilities of risk management.

The ERMF is realised through the policies and standards which are then aligned to individual principal risks.

The ERMF identifies 12 principal risks and sets out out associated responsibilities and expectations around risk management standards.



	Principal risks	Definition
Financial principal risks	**Credit risk**	The risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.
	Traded market risk	The risk of the Absa Kenya's earnings or capital being adversely impacted due to changes in the level or volatility of prices affecting the positions in its active trading activities across the market. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.
	Treasury risk	The risk and related constraints, which supports the effective management of the Absa Kenya financial resources, inter alia capital, liquidity and funding, that are critical to meeting the Absa Kenya strategic objectives. As such it comprises, Liquidity Risk, Capital Risk, and Interest Rate Risk in the Banking Book (IRRBB).
	Insurance risk	The risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing.
	Business risk	The risk assumed due to potential changes in general business conditions, competitive market environment and strategy, and the risk of earnings variability, resulting in business revenues not covering operating costs after excluding effects of market, credit and operational risks.
	Model risk	The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.
Non-financial principal risks	**Operational risk**	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and excluding Resilience Risk.
	Resilience risk	Resilience Risk focusses on the risk of interruption of Absa Kenya business, a loss of data or impairment of data due to technological failure, compromise of information security, unavailability of premises or infrastructure, inability to recover a process in the event of a disaster and inappropriate technology project selection and execution.
	Conduct risk	The risk of detriment to Absa Kenya, its customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including instances of wilful/negligent misconduct, unethical behaviour and the failure to manage regulatory relationships.
	Financial crime risk	The risk of an act or attempted act against institutions, organisations or individuals by internal or external agents to illegally appropriate, defraud, manipulate or circumvent legislation. Financial crime includes offences such as money laundering, terrorist financing, bribery and corruption, market abuse and insider trading.
	Reputation risk	The risk of damage to the Absa Kenya brand arising from any association, action, transaction, investment or event which is, or is perceived by stakeholders (e.g., customers, clients, colleagues, shareholders, regulators, opinion formers) to be inappropriate or unethical.
	Sustainability risk	The failure to implement responsible operational and lending practices to effectively manage and report the impact of Absa Kenya's direct and indirect impact on the environment, society and geographies we operate in.

Risk appetite

Risk appetite defines the level of risk we are prepared to accept across the different risk types, taking into consideration varying levels of financial and operational stress.

Risk appetite is key to our decision-making processes, including ongoing business planning and setting of strategy, new product approvals and business change initiatives.

The Bank sets its risk appetite in terms of performance metrics as well as a set of mandate and scale limits to monitor risks. During 2021, the Bank's performance remained within its risk appetite limits.

The risk appetite framework is a key tool linking the organisation's strategy, capital allocation, and risk management. The risk appetite is translated into targets and limits for the business lines and establishes the roles and responsibilities of the Board of Directors and senior management in formulating the risk-appetite statement

Three lines of defence

The first line of defence is comprised of the revenue generating and client-facing areas, along with all associated support functions, including Finance, Treasury, Human Resources, Operations and Technology. The first line identifies the risks, sets the controls and escalates risk events to the second line of defence.

The second line of defence is made up of Risk and Compliance and oversees the first line by setting limits, rules and constraints on their operations, consistent with the risk appetite.

The third line of defence is comprised of Internal Audit, providing independent assurance to the Board and Executive Management Committee on the effectiveness of governance, risk management and control over current, systemic and evolving risks.

Although the Legal function does not sit in any of the three lines, it works to support them all and plays a key role in overseeing Legal risk in the Bank. The Legal function is also subject to oversight from the Risk and Compliance functions (second line) with respect to the management of operational and conduct risks.

A three lines of defence risk operating model with clear accountability to govern risk across all businesses and functions:

1st line
Process and control owners responsible for managing end-to-end risks and controls in their businesses.

2nd line
Risk and Compliance and oversees the first line by setting limits, rules and constraints on their operations.

3rd line
Internal audit function test adequacy and sufficiency of controls

Monitoring the risk profile

Supported by a strong governance process, the Board receives regular information in respect of the risk profile of the Bank, and has ultimate responsibility for the risk appetite and capital plans. Information received includes measures of risk profile against risk appetite as well as the identification of new and emerging risks.

In 2021, Absa ran a range of scenario analyses to determine potential outcomes of the COVID-19 pandemic which informed management actions. One of the scenarios was a macroeconomic stress test which considered, among other factors, a second wave of the COVID-19 pandemic in which scientific progress was limited to the extent that no vaccine was available throughout 2021. The results of these tests met the Bank's risk appetite. We believe that our structure and governance support us in managing risk in the changing economic, political and market environments.

Risk management overview

Globally, the COVID-19 pandemic significantly increased the risks faced by financial market participants and the economy, and materially changed the economic outlook. Upcoming general elections are expected to result in lower economic activity. The Bank's focus remains on proactive risk and capital management.

Current and emerging risks	Management's
Global recovery with economic uncertainty	
• Recovery from significantly reduced economic activity under pressure from further variants and waves of infections and impacted by the desperate speed of global COVID-19 vaccine rollouts. • High sovereign debt levels, and reduced debt and interest servicing capacity increase the possibility of sovereign defaults and an emerging markets debt crisis. • Global uncertainty resulting in increased global economic pressure and risk aversion to emerging markets.	• Maintain a dynamic approach to risk appetite setting in response to the outlook for 2021 and beyond. • Use stress scenarios to evaluate the potential outcomes of a variety of external and internal factors. • On an ongoing basis, management develops mitigating actions and assesses their effectiveness to guide decision making.

Current and emerging risks	Management's response
Anticipated long-term impact of sovereign interventions	
• Actions taken by governments, such as lockdowns, to curb waves of COVID-19 infections result in economic hardship, higher unemployment, increased inequality, and lower business and consumer confidence. These negative impacts are expected to continue increasing until COVID-19 vaccine programmes have reached herd immunity. • Heightened risk of social unrest due to rising fatigue from lockdowns and public anger over deteriorating economic environments.	• Actively engage governments, communities and customers to support initiatives to address economic hardship. • Monitor developments on an ongoing basis and proactively adjust business responses to address emerging risks, including re-evaluating credit policies and operational and resilience processes and models.
Sustained pressure on the financial services industry	
• While signs of recovery are visible, the effects of further infection waves could exacerbate the already heightened stress experienced by stakeholders, such as, customer distress resulting in increased impairments and credit risk, reduced availability of capital supply, funding and liquidity, elevated business risk as earnings are impacted by the negative impact of the COVID-19 pandemic on the economy.	• Monitor and manage risk reduction strategies and downside risk presented by the uncertainty in the outlook where the economic recovery is likely to be unstable. • Monitor leading indicators to ensure economic risks are effectively managed through: preservation of capital and liquidity, conservative management of discretionary expenditure and proactive management of credit portfolio risks.
Heightened resilience, fraud, people, and cyber risks expected for the foreseeable future	
• Heightened pressure on the health of employees, customers and suppliers as subsequent waves of the pandemic continues. • Ongoing pressure on operational resilience arising from the impact of the COVID-19 pandemic. • Heightened fraud and security risks arising from economic pressure. • Increasing opportunistic financial crime and cybercrime, combined with rising sophistication of criminal activity, impacting customers and the Bank. • Increasing exposure to potential data leaks arising from third- and fourth-party suppliers.	• Adhere to health and safety recommendations, including monitoring infections and adherence to preventive measures, to keep premises safe for employees, customers and suppliers. • Involvement in national and industry vaccination programmes for employees and stakeholders, in line with government regulations. • Maintain heightened focus on operational resilience and proactively identify and mitigate risks. • Maintain high stability of the technology estate to minimise incidents impacting customers and operational effectiveness. • Continue to invest in security platforms and further strengthen controls to secure customer information including, investments in technology, data capability (including external intelligence), customer awareness campaigns and industry collaboration. • Enhance due diligence performed on third party suppliers through ongoing review and monitoring of controls. • Monitor and manage the impact on employees through an expanded Bank wellness programme and supporting employees in the evolution of working environments.

Current and emerging risks	Management's response
Strategic, execution and business risks arising from external and internal drivers	
• Significant changes in the economic and social environment impact the execution of the Bank's strategy and heighten business risk. • Disruption through changing customer preferences and competitor offerings.	• Monitor and manage risk strategy and risk appetite based on the ongoing evaluation of the regional and local developments to identify and mitigate risks as they arise, while enabling business to pursue selective strategic opportunities. • Ongoing alignment of risk objectives with the Bank's strategy to support its customers and communities in an efficient, responsible and sustainable manner. • Ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs.
Environmental and social risks impact the Group, its customers and operating environment	
Adverse impact of ongoing and rapid climate and social change on communities and customers will sharply heighten the Group's credit and insurance risks. Evolving complexities in the management of social trends and the societies and political environments in which the Group operates.	• Implement the United Nations Environmental Programme Finance Initiative Principles for Responsible Banking (UNEP FI PRB) as well as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). • Reduce our direct environmental footprint in line with the Group's 2030 environmental action plan and understand physical climate risk impacts. • Embed processes to encourage customers to adopt business strategies and practices which are aligned with the Group's sustainability policy. • Develop financing standards for other climate sensitive industries in line with the existing coal financing standard. • Enhance credit and insurance risk models to assess the impact of climate change risk. • Continue to develop internal capabilities to utilise scenario analyses and stress testing to better estimate the impact of climate change on the Group's portfolio to inform future decision making. • Regularly assess the suitability and strategic alignment of products and customer value propositions with changing environmental and social factors and the impact on the Group's risk profile. • Maintain focus on financial inclusivity of customers, including the ongoing support of small and medium enterprises.

Corporate Governance Statement

The Board of Absa continues in its dedication to high standards of corporate governance which it considers crucial in promoting strategic decision-making. The Directors consider the short, medium and long-term outcomes of these decisions to create sustainable shared value by balancing the interests of the Company with those of its stakeholders and the societies in which it operates.

The Board has ultimate authority and oversight over the Company and considers that effective corporate governance extends beyond compliance and is a critical element in achieving the Company's objectives. The Directors are committed to honouring their fiduciary and general duties of reasonable skill, care and diligence to the Company as governed by the provisions of the Companies Act, no 17 of 2015, the Capital Markets Act, Chapter 485, the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (CMA Governance Code), King IV Report on Corporate Governance in South Africa (King IV Code) and Common Law.

The Board and management of the Company are made fully aware of and continue to comply with the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya (CBK) being the primary regulatory authority of the Company as well as the Capital Markets Authority (CMA) Governance Code. In 2021, the Company applied and fully complied with the CBK Guidelines and CMA Governance Code in the prescribed areas such as Board Operations and Control, Rights of Shareholders, Stakeholder Relations, Ethics and Social Responsibility, Accountability, Risk Management and Internal control as well as Transparency and Disclosure.

The Board believes that good corporate governance creates shared value by underpinning responsive thinking and protects shareholder value by ensuring responsible behaviour through effective leadership, enhanced accountability, heightened transparency and robust risk control and management.

The Board regularly reviews its corporate governance arrangements and practices and ensures that the same reflect the developments in Regulations, best market and international practice and stakeholder expectations. Our Corporate Governance Framework enables the Board to oversee the strategic direction of the Company, its financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

This statement details the key corporate governance arrangements and practices of the Company and its subsidiary companies. It explains how the Company's Corporate Governance Framework, which provides guidance to the Board, management and employees is structured and implemented in compliance with the requirements of the CMA Governance Code.

Governance Framework

The Company has continued to operate within its established Governance Framework which provides for how the Board delegates its authority. It defines what can be delegated by the Board without abdicating its responsibility. Ultimate responsibility continues to rest with the Board. Through the Governance Framework, the Board sets out the strategic direction of the Company while entrusting the day-to-day running of the organization to the Country Management Committee that is led by the Managing Director. The performance of the Managing Director and Country Management Committee is closely monitored against set objectives and policies. The Board operates through five committees (four permanent and one ad hoc) mandated to review specific areas and assist the Board to undertake its duties effectively and efficiently. A detailed description of the Board, its Committees and an account of the work that they have each accomplished is covered in pages 79 to 84 of this report.

The fundamental relationships between the shareholders, Board, Board committees and Country Management Committee is illustrated below:

The Board annually reviews and approves a Board Charter and Terms of Reference for each of its Committees.. These instruments clearly define the roles and responsibilities of the Chairman, Directors, the Committees and the Company Secretary. The Board Charter and the Committees' terms of reference were last reviewed and approved by the Board on 22nd November 2021. The Board Charter and a summary of the Board Committees' terms of reference are available on the Company website www.absabank.co.ke.

Governance and the role of the Board

In discharging its duty to act in good faith, promote the success of the Company and deliver long-term sustainable value for its shareholders, the Board is ultimately accountable to the shareholders.. In exercise of this mandate, the Board appoints the Managing Director, sets the strategic objectives of the Company with input from management, and oversees the management, execution of strategy and performance, remuneration and governance frameworks of the Company. The Board achieves success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Company manages risks effectively and monitors financial performance and reporting.

In performing this role, the Board:

- Approves the strategic and financial plans that are to be implemented by management.
- Oversees the Risk Management Framework and its implementation by management.
- Sets the Company's risk appetite within which management is expected to operate.
- Approves significant capital expenditure for investments & divestments as well as capital & funding proposals.
- Reviews succession planning for the management team and makes senior executive appointments as well as organizational changes and deals with high-level remuneration issues.
- Provides oversight over performance against targets and objectives.
- Provides oversight over reporting to shareholders on the direction, governance and performance of the Company as well as other processes that require reporting and disclosure.
- Provides oversight over the activities of the subsidiaries of the Company.
- Monitors financial performance and reporting and approves the financial statements to be published and circulated to the shareholders.
- Establishes and reviews internal control systems and information systems on a regular basis.

Authority and delegation

The Board Charter sets out the Board's mandate and authority as well as matters reserved for determination and approval by the Board. These include decisions concerning strategy and long-term objectives of the Company, the Company's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserved matters. To assist in discharging these responsibilities, the Board has established Board committees to consider key issues. Further details of the Board committees including their respective roles, key responsibilities, composition and membership are provided later in page 79-84 of this Statement.

The Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors can contribute effectively. The Chairman also plays a critical role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

The roles and responsibilities of the Chairman and the Managing Director are separate and distinct with a clear division of responsibility between the Chairman's role of running of the Board and the Managing Director's executive responsibility of running the Company's business.

As set out in the Board Charter, the Board delegates responsibility for the day-to-day management of the business to the Managing Director. The Managing Director in turn delegates aspects of his own authority to members of the Country Executive Committee. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives. To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees include the Country Management Committee (CMC), the Assets and Liabilities Management Committee (ALCO), the Executive Risk Committee (ERC) and the Product Approval Committee.

The Board

Board composition, diversity and performance

The Company is governed by a Board of Directors ("Directors" or "Director") each of whom is elected by the Company's shareholders.

Board appointment, renewal and re-election of directors

The Articles of Association of the Company provide that the Board shall comprise of a maximum of fourteen Directors. As at 31st December 2021, the Board was comprised of 9 Directors (2 Executive Directors, 1 Non-Executive Director and 6 Independent Non-Executive Directors). The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law. There were no changes in the Board during the year.

The Board composition is driven by the following principles: -

a) The majority of the Directors in the Board must be independent Non-Executive Directors.

b) The Board should consist of Directors with a broad range of skills, experience and expertise and be from a diverse range of backgrounds.

c) The Chairman of the Board must be an Independent Non-Executive Director.

d) Succession planning is an on-going process, with the Board discussing the same regularly and robustly.

e) The process of appointing a new Director is overseen by the Chairman and the Corporate Governance, Nominations & Remuneration Committee (Nominations Committee). The Committee is responsible for recommending the procedure for the selection of new Directors, the proposed criteria for the selection of candidates with particular reference to current mix of skills, knowledge and experience. The Committee identifies and nominates a shortlist of candidates and may engage the services of a professional intermediary to provide assistance in identifying and assessing potential candidates. The preferred candidates meet with the members of the Committee before the Committee makes a final recommendation. Prior to confirmation of appointment, all Directors are required to meet the "Fit and Proper" requirements set out in the Prudential Guidelines issued by the Central Bank of Kenya. The key terms and conditions of a Director's appointment are documented in a letter of appointment.

A Director appointed by the Board to fill a vacancy must seek election at the next Annual General Meeting ("AGM") after their appointment. As further provided for in the Articles of Association, at every AGM, and as may be applicable, at least one-third of the

Non-Executive Directors must retire from the Board and where eligible, stand for re-election.

The Board Charter provides that Non-Executive Directors are normally expected to serve a term not exceeding a total of 9 years, subject to re-election by shareholders as required under the Company's Articles of Association, the Board Charter and applicable law.

While the Board Charter does not set an age limit for Directors, in line with the requirements of the CMA Governance Code, the Company's practice is for any Directors who attain the age of seventy (70) to retire from the Board and shareholders are informed about this retirement through publication in the national dailies upon the occurrence of the event. Should the Director wish to continue serving on the Board, he/she will need to seek the approval of the shareholders at the next Annual General Meeting, to continue serving on the Board.

The Directors believe that maintaining a Board composition comprising a majority of independent Non-Executive Directors enhances transparency and accountability. This, combined with rigorous implementation of the Code of Conduct, Code of Ethics and Conflict of Interest Policy enable the Board to act in the best interests of the Company and its stakeholders while protecting the interests of minority shareholders.

Skills, experience and diversity

Having regard to the Company's strategy, vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to, challenge, question and critique as well as leadership qualities. At a collective level, the Company looks for a diversity of skills, knowledge, experience and thought to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Company.

The Company seeks to have a Board that has the right mix of individuals with relevant attributes, skills, knowledge and experience . They are expected to have overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Company. The Non-Executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Company operates.

The Board, through the (Nominations Committee regularly reviews the Board's size, structure and composition against the skills gaps on the Board and experience needed to deliver the strategy. The Nominations Committee has been tasked to take this into consideration in its recommendations of suitable candidates. In addition, the Nominations Committee has developed a a pipeline of potential directors for purposes of Board Succession management.

Annually, the independent Board members are required to attest that they remain independent based on a review of the independence factors prescribed by the CBK Prudential Guidelines and the CMA Code of Issuers of Securities to the Public. Based on this review of the annual declarations of independence by directors, the Board is satisfied that the independent Directors, who include the Chairman and 5 Directors, have remained independent since their appointment.

Based on the Directors' participation in Board meetings and other necessary engagements, the Board is satisfied that all its Non-Executive Directors, including the Chairman, have sufficient time to devote to the effective discharge of their roles.

Director independence

The Board recognises the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and all its stakeholders. The Board Charter, prepared in line with the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its Directors should be independent.

The status of independent Board members is assessed annually through the Directors' Declaration of Independence.

Conflict of interest

All Directors of the Company must avoid any situation which might give rise to a conflict of interest between their personal interest and that of the Company. The Directors are each responsible for notifying the Chairman and the Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorize the conflict, subject to conditions and limitations as the Board may determine. Any Director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Company is required to immediately declare the potential conflict of interest for the Board to review. As a matter of embedded practice, Directors are required to declare their interests (directorship and shareholding) in any matter on the agenda of the Board and Committee meetings at the start of every meeting. Any Director with a material personal interest in any matter that is being considered during any Board or committee meeting, will not vote on the matter or be present when the matter is being discussed and considered.

In order to monitor and manage any potential conflicts, the Company maintains a Conflict of Interest Register which Directors are required to review and sign off at the end of each scheduled Board meeting.

Further, the Nominations Committee requires potential Directors to disclose any potential area of conflict of interest that may compromise their position or service as a director for consideration as part of the selection process. The Committee reviews the nature of Directors' other interests, to ensure that the efficacy of the Board is not compromised and may make recommendations to the Board if it concludes that a Director's other commitments would negatively affect their ability to effectively discharge their responsibilities.

Directors' interests in the company as at 31 December 2021

Director	Number of Shares in the Company
Jeremy Awori	67 300
Yusuf Omari	100 000

The list of the Board members in office during the year as well as their tenure on the Board and skills and industry experience is indicated below.

Director	Skills and Industry Experience	Category	Age	Date of Appointment	Tenure	Nationality	Gender
Charles Muchene	Risk Management, Strategy, Corporate Governance, Audit, Accounting and Financial Advisory, Citizenship and Sustainability, Financial Services	Independent Non-Executive	64	22 August 2016	5 yrs 4 mths	Kenyan	Male
Patricia Ithau	Retail and Consumer, Strategy, Brand Management, Consumer Goods	Independent Non-Executive	56	23 February 2016	5 yrs 10 mths	Kenyan	Female
Laila Macharia	Investment Banking, Assets and Liabilities, Legal and commercial services and advisory	Independent Non-Executive	51	11 August 2014	7 yrs 4 mths	Kenyan	Female
Japheth Olende	Insurance, Financial Services, Risk Management, Bancassurance	Independent Non-Executive	68	7 March 2018	3 yrs 9 mths	Kenyan	Male
Louis Otieno	Information Technology, Strategy, Marketing	Independent Non-Executive	57	7 March 2018	3 yrs 9 mths	Kenyan	Male
Jeremy Awori	Business Management, Financial Accounting, Financial Services, Strategy and Corporate Governance	Executive	51	1 February 2013	8 yrs 10 mths	Kenyan	Male
Yusuf Omari	Financial advisory, Financial Accounting, Business Management, Strategy and Corporate Governance	Executive	48	1 June 2009	12 yrs 6 mths	Kenyan	Male
Charles Murito	Media, Information Technology, Digital Space, Sales	Independent Non-Executive	45	24 June 2020	1 yr 6 mths	Kenyan	Male
Fulvio Tonelli	Audit, Risk and Quality, Finance, IT, Strategy	Non-Executive	61	1 October 2020	1 yr 2 mths	South African	Male
Christine Sabwa	Corporate governance, Banking, Business Strategy, Operational risk, Policy formulation, Financial Management, modeling, Auditing.	Independent Non-Executive	49	9 February 2022	1 mth	Kenyan	Female

The Company Secretary

The Company Secretary is appointed by the Board and is responsible for advising the Board and providing practical support for Directors. The Company Secretary is responsible for monitoring compliance with the Board's procedures and implementing the Governance Framework to give practical effect to the Board's decisions. The Company Secretary is also responsible for facilitating good information flow within the Board and its committees and between the Directors and management as well as the induction of new Directors and the ongoing professional development of Directors. Each member of the Board has direct access to the advice and services of the Company Secretary. The performance of the Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

How the Board operates

The Chairman is responsible for ensuring that the Board receives accurate, timely and quality information about the Company's businesses and operations. The Chairman, Managing Director, Chief Financial Officer and the Company Secretary work together to ensure that the Directors receive all such information at the right time and in a format that enables the Board to effectively discharge its mandate and responsibilities.

The Board usually holds at least four (4) scheduled Board meetings per year. There are also separate strategy, training and/or planning sessions, which all Directors are expected to attend, unless there are exceptional circumstances that prevent them from doing so. In the event that a Director is unable to participate in a Board or Committee meeting, he/she is required to inform the Chairman ahead of the meeting who conveys the apology at the meeting. the Notice, Agenda and detailed meeting papers are circulated to the members not less than 7 days before the meeting. , This allows them to raise any questions or make their comments before the meeting in case they will be absent from the meeting. For the last two years (2020 and 2021), Board and Committee meetings have been held virtually through an electronic platform due to the ongoing pandemic and the government restrictions on physical gatherings. Members have been able to participate in meetings from their respective remote locations without the requirement to travel to a physical location.

A quorum for Board meetings consists of a majority of the members. A quorum may be reached provided the members attend, either in person, by tele or video conference.

The Board is collectively responsible for setting its own agenda. In practice an annual calendar of Board business is developed by the Company Secretary and the Chairman, with all Directors having the opportunity to propose further items. This provides a forward-looking indication of the items items that are to be covered at each Board meeting including presentations on the Company's business and operations, with flexibility to build on emerging or ad hoc matters, or take deep dives into issues that the Board might be concerned about or wishes to get more information about. The annual work plan is reviewed regularly to ensure that all Board matters are covered and other emerging issues are discussed timeously.

The Company's Articles of Association provides that members of the Board are entitled to vote on decisions at Board meetings, and each member has one vote. Majority votes decide a matter and in the event of a deadlock the Chairman shall have a casting vote. In practice though, and in keeping with good corporate governance practice, the Board operates and reaches its decisions by consensus. In case of divergent views that are not resolved at a Board meeting, the Chairman holds further engagements with the Board on the matter and should the matter still remain unresolved, then external advice or other appropriate means are used to enable the Board to decide on a matter.

Board Committees

The Board has delegated its authority to various Board Committees so as to undertake its mandate effectively and efficiently. In deciding committee memberships, the Chairman and the Nominations Committee endeavour to make the best use of the range of skills across the Board and to share responsibility. The current practice is for each board member to serve on 2 board committees based on their skills and expertise. Membership is reviewed on an annual basis by the Chairman in collaboration with the Nominations Committee.

Each committee has in place Terms of Reference that sets out the roles and responsibilities and the procedural rules that apply to the committee. Each committee must be composed of at least 3 members, a majority of whom must be independent and have an independent Chairman. The Audit Committee is made up of only independent Non-Executive Directors in line with the provisions of the Prudential Guidelines issued by the CBK.

In 2021, the Board Committees held extensive discussions to prepare and deliberate their Key Performance Indicators (KPIs) based on the mandate delegated and assigned to them by the Main Board. These KPIs were subsequently presented and approved at the Q4 Board meeting of 22nd November 2021. Going forward, the Committees will map their performance against the approved KPIs.

Board and Committee meetings

The Board agenda includes periodic reviews of the Company's operating business units, approval of strategy, progress updates on implementation of strategy, business plans, budgets and financial statements, review of statutory obligations and other responsibilities identified in the Board Charter.

Directors are entitled to request for additional information where they consider it necessary to support informed decision-making.

In 2021, the Board held six scheduled Board meetings and special meetings to handle other matters that required the Board's attention. A 2day strategic planning session was also held in October 2021.

The 4 standing Board Committees meet at least once every quarter and additional meetings may be convened when necessary. Each Committee Chair is required to present a report to the Board on significant discussions and key decisions for approval at the Board meeting that is held subsequent to the date of the Committee when discussions are had .

Details of Directors' attendance at Board and Committee meetings are set out on page 85 of this report.

Board and Committee objectives and achievements in 2021

Board objectives and achievements in 2021

Key priorities of the ABK Board:

- **Implementation of the Bank's Strategy with new focus on the following areas:** Business Continuity Planning, Innovation and Risk/ Compliance assessment.
- **Developments in Digital technology:** The Bank is responding to digital disruption through innovation by developing products that are more aligned to customer needs and through introducing processes that enhance customer experience to make it easier, faster and better.
- **New Normal:** In line with the need for the business to become 'agile' in terms of its' people, systems and processes, and responses to the market challenges. management has introduced new ways of working through enabling remote working capabilities for back office staff, problem solving techniques such as through squads and sprints with participation from teams from across the business, among others.
- **Absa Brand Transition:** Brand health and growth remain a priority area with the key focus area being to monitor the brand awareness in the market, to expand the product offering to capture a wider demographic, to ensure the brand resonates with larger sections of the market and s to effectively manage the Bank's stakeholders and its reputation.
- **Transition from a Banking to a Financial Services Institution (FSI):** The need to reposition the Bank as an FSI to harness emerging opportunity in the market and to align its strategy, policies, oversight and accountability to this reality while averting exposures in such areas as cyber security and data privacy.
- **Corporate culture:** To promote the right corporate culture.
- **Implementation of the Bank Sustainability Programme:** Providing oversight of the Bank's sustainability programme in line with the Bank's ambition to remain a sustainable business through effective partnerships with relevant stakeholders. The Bank purposes to be a force for good in society.
- **Human Resource matters:** To review reports on human resource matters such as top talent management, performance evaluation, employee's remuneration, among others.

Key deliverables in 2021

Held quarterly board meetings where progress on implementation of the Bank's strategy was presented to the Board. In addition, the Board received quarterly updates from the Strategy Committee on implementation of strategy with no material deviations being observed.

The Board received quarterly updates on the Bank's development in digital including new innovative products and services being offered to customers.

In view of the prevailing pandemic environment, the Bank was kept up to date with the new ways of working in the Bank and initiatives being pursued to improve efficiencies in the Bank.

The Board noted that the Absa brand awareness had increased from 23% in 2019 to 92% as at end of the year 2021.

The Board received regular reports on the implementation of the Bank's Sustainability Programme through the Corporate Governance, Nominations and Remuneration (CGR) Committee.

The Board received regular updates on the strategic HR matters through the CGNR Committee

- Approved the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Approved the Bank's Short-Term Plan (STP) and Medium-Term Plan (MTP).
- Approved the quarterly and full year Company financial results and performance.
- Approved the Bank's Risk Appetite Statement for 2021 and Risk Management Frameworks
- Approved the Capital Buffer Testing Model
- Approved various Compliance and Group wide Policies and Standards
- Approved the Significant Credit Reviews completed in each quarter, the Significant New Business Deals in each quarter
- Approved the Retail Bank and Corporate Bank Write offs
- Approved a List of Emergency Chairs for Board and Board Committees
- Approval of revised Board Charter, Board Committee Terms of Reference, Board and Committee Work Plan, Subsidiary entities Board Charters

Corporate Governance Statement

Board Committees' activities and achievements during the year

Audit and Risk Committee

Laila Macharia
Chairperson

Members

Laila Macharia (Chairperson)

Louis Otieno

Patricia Ithau

Fulvio Tonelli

Mandate of the Committee

One of the key areas of focus for this committee is ensuring the integrity of financial reporting to the market and the effective operation of the underlying control environment and information systems. This role includes reviewing and approving the workplans of the internal auditor, considering adequacy of the scope of the external auditors and the effective adoption of a combined assurance approach by the responsible business units. The committee receives reports on findings of the auditors, material issues raised by the critical 2nd and 3rd line risk functions and reviews the actions that are provided by the business teams to remediate the identified deficiencies. . The Company has established an internal audit function which is headed by the Chief Internal Auditor who reports directly to the Committee.

In addition to overseeing controls and financial reporting, the Committee also oversees the enterprise-wide view of risks and controls and assesses the overall risk appetite and risk profile of the business. It meets quarterly to oversee all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. The committee is also responsible for ensuring that the company has a robust Business Continuity Plan that is tested annually.

In accordance with regulatory requirements, the Committee comprises of only Non-Executive members of the Board who are independent of the day-to-day management of the Company's operations.

Achievements in the year

Reviewed the integrity of the Bank's financial statements before recommending them to the Board for approval.

- Reviewed and approved the external audit plan for the year-end external audit.
- Reviewed and approved the revised Audit Charter which guides the internal audit function of the Bank.
- Reviewed and approved the internal audit plan for the year.
- Reviewed and approved the Enterprise Risk Management Framework.
- Reviewed and recommended the approval of various Compliance policies and standards such as Gifts & Entertainment Policy, Cross Border Activities Standard, Data Privacy Incident Management Standard, Customer Engagement Standard, Regulatory Reports Standard, Customer Complaints Standard, Conflicts of Interest Policy, among many others.
- Reviewed the status of various compliance requirements and recommended appropriate actions to ensure continued full compliance in a dynamic environment.
- Received semi-annual reports on the status of the Bank's litigation portfolio.
- Reviewed reports on the management of various risks that the business faces on an ongoing basis, including impairment, operational risk, capital, liquidity, market risk and conduct/reputational risk and approved various recommendations by Management intended to enhance the management of these risks.
- Reviewed the Data Governance structure of the Bank and progress of implementation of the Data Protection Act of 2019.
- Reviewed the proposed Recovery and Resolution Plan.
- Approved the Bank's Risk Appetite Statement.
- Reviewed and approved the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Reviewed and approved the report on an independent Anti Money Laundering /Combating Financing of Terrorism risk assessment, which review was also conducted across all subsidiaries of the Company for submission to the Central Bank of Kenya.
- Reviewed regular reports on the status of whistleblowing matters in the Company.
- Received reports from the External Auditor, Ernst & Young on Key Audit matters such as on IFRS 16, the retention of fully depreciated assets on the fixed asset register as well as managements actions to resolve the matters.

The Committee also held closed sessions, without management present, with Ernst & Young, the external auditor, to receive the Auditor's independent report and assurance on the financial statements. The Committee, through the set processes and procedures, continues to confirm the independence of the External Auditors at the end of each audit cycle and is satisfied that the Auditors remain independent.

Board Committees' activities and achievements during the year

Corporate Governance, Nominations and Remuneration Committee

Patricia Ithau
Chairperson

Members
Patricia Ithau (Chairperson)
Charles Muchene
Japheth Olende
Charles Murito

Mandate of the Committee:

The overall purpose of the Committee is to assist the Board in maintaining high standards of corporate governance by developing, recommending and monitoring effective guidelines and procedures applicable to the Bank and its Subsidiaries. In particular, the Committee is responsible for ensuring the Bank maintains a commitment to good business conduct, including Environmental, Social and Governance (ESG) issues, and ethics. It is further responsible for identifying individuals qualified to become Board members, recommending to the Board proposed nominees for election to the Board and developing and recommending to the Board corporate governance principles applicable to the Bank. In addition, the Committee is responsible for Board development, top talent management and succession planning including oversight of the Bank's remuneration philosophy, as well as playing an oversight role in implementation of the Sustainability programme of the Bank.

Key deliverables in the year

- **Board Development:** The Committee facilitated Board development in two sessions held in June (one and a half days) and November (half day) that were facilitated both internally and through external trainers. The sessions covered various topics such as integrated reporting, reputation risk, ethics, emerging accounting standards, board culture and dynamics, Big Data, cybersecurity threats and key considerations, cloud technology, innovative technologies adopted by the Bank such as Whatsapp/Chat banking, among others.
- **Monitoring Directors independence:** The Committee conducted annual review of the process and approach for Directors' Declaration of Independence to align with local laws and best practice.
- **Board Evaluation:** Conducted the Board effectiveness review for the year 2021 as well as follow up on implementation of remedial actions from the previous Board evaluation.
- **Review of Board Skills:** Reviewed the Board Skills Matrix as well as the composition of the Board, its Committees and the Boards of the Bank's subsidiaries and ensuring appropriate reporting by the subsidiaries to the Bank's board.
- **Revamped the Board Calendar of Events and Work Plan** (including the Calendar of Events for the Main Board as well as each Board Committee), to ensure they were fit for purpose.
- **Board Succession:** Facilitated the Bank's Main Board and Boards of Subsidiaries succession planning through continually developing a pipeline of Directors.
- **Review of strategic Human Resource matters:** These matters included among others, succession planning for Board and senior management, talent planning, staff engagement, performance revaluation, staff remuneration and Union matters.
- **Developed the Committee's strategic objectives and Key Performance Indicators (KPIs)** to enable the Committee narrow down its focus areas for greater effectiveness.
- **Board composition:** Reviewed the Board size, structure, composition and diversity and embarking on a nominations process to improve skills and gender diversity on the Board.
- **Managing Director Performance:** Reviewed the performance of the Managing Director and gave input on his strengths and areas of development.
- **Sustainability Programme:** Received regular reports on the Bank's Sustainability programme.
- **Review of Legal & Compliance Audit findings:** Received a report on the Legal & Compliance Audit which was conducted in August 2021 and the key actions from the Audit.
- **AGM Planning:** Received a report on the AGM 2021 planning process and provided critical feedback on how to improve the Shareholders' meeting.
- **Received a report on the Legal and Compliance Audit** which was conducted in the course of the year and the key actions from the Audit.
- **Received a report on the AGM 2021** planning process and provided critical feedback on how to improve the Shareholders' meeting.

Board Committees' activities and achievements during the year *(continued)*

Credit Committee

Laila Macharia
Chairperson

Members

Laila Macharia (Chairperson)
Japheth Olende
Charles Murito
Fulvio Tonelli

Mandate of the Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book.

The Committee is the ultimate sanctioning authority in the Bank, whose responsibility is to provide a continuing forum to discuss and review credit policy and strategy at least annually; to ensure that the Bank remains competitive by monitoring, discussing and advising on the Bank's credit risk appetite and tolerances in aggregate by sector and/or product; to ensure compliance with Statutory and Regulatory requirements on lending limits, capital adequacy and statutory ratios; to provide input on political, environmental and socio-economic matters in order to ensure that all relevant non-credit risk issues, are taken into account in making sanctioning decisions; to monitor, advise on and review lending to persons and institutions that may impact on the Bank's reputation and relationship with key stakeholders; to monitor the overall health of the Bank's lending book based on sector, currency, maturity and including impairments, among others.

Key deliverables in the year

- Reviewed and recommended for Board approval the Significant Credit Reviews completed and the New Business Deals Reviewed in each quarter.
- Received quarterly reports on the performance of Absa Business Support and Corporate Recoveries Accounts.
- Reviewed the Bank's retail lending policies and policy initiatives aimed at ensuring continued growth in the retail lending book taking into account any mitigating relevant risks.
- Continued to monitor the status of the top 20 exposures on the Bank's balance sheet.
- Closely monitored the Bank's Impairment risk which grew significantly as a result of the ongoing pandemic and implemented mitigating strategies.
- Assessed the Bank's risk appetite for significant new business deals.
- Regularly reviewed the Bank's concentration risk by industry and portfolio segments and ensured an appropriate balance was maintained.
- Approved the Retail and Corporate Write offs for the year and the report on Directors' lending. Reviewed and recommended the approval of various Credit policies, including the Wholesale Credit Policies and Retail Credit Policies.

Board Committees' activities and achievements during the year *(continued)*

Strategy Committee

Louis Otieno
Chairperson

Members
Louis Otieno (Chairman)
Charles Muchene
Laila Macharia
Jeremy Awori

Mandate of the Committee

The purpose and responsibility of the Committee is to assist the Board of Directors in discharging its oversight role in the development and implementation of the Bank's strategic plan and evaluate mitigations to the risks associated with execution and implementation of the strategy. The Committee considers management's proposals on the various strategic priorities and options available to the Company and makes recommendations to the Board regarding the development of the Company's long-term strategic plans. The Committee reports its conclusions and recommendations to the Board on a quarterly basis.

In particular, the Committee reviews business expansion activities related to the bank and its subsidiaries as pertinent to the Company's strategic focus and objectives; reviews capital allocation and planning to ensure a fair balance between growth and acceptable return on capital; reviews management's proposals on new growth areas including partnerships and acquisition targets; encourages the Company to actively promote a reward culture that drives innovation across the Company in a manner that benefits customers and shareholders; develops and recommends to the main Board the agenda for the annual Board Strategy meetings and provides oversight of the delivery of outcomes of the strategy meetings; among others.

Key deliverables in the year

- Finalised on the Terms of Reference for the Committee and presented it to the Board for approval.
- Received quarterly reports on the progress of execution and implementation of the Bank's Strategy and any challenges being faced in the process
- Finalised on the Committee Work plan and presented it to the Main Board for approval
- Received an update on Data Transformation Strategy in the Bank
- Received, considered and recommended to the Main Board the proposed Agenda for 2021 Board Strategy meeting
- Received and considered the outcomes of the 2021 Board Strategy meeting
- Received and considered a report on the Financial Medium-Term-Plan 2022 - 2024
- Received a report on the Financial MTP 2022 - 2023.

Crises Response Committee (ad hoc)

Louis Otieno
Chairperson

Members
Louis Otieno (Chairman)
Charles Muchene
Laila Macharia
Jeremy Awori

The Committee is an ad hoc committee to assist the Board in oversight of the Bank's and its subsidiaries' Business Continuity Plans in the event of significant crisis such as COVID-19 pandemic and force majeure events among others. The mandate of the Committee involves overseeing the identification, management and mitigation of crisis related risks in a comprehensive and integrated manner, providing strategic leadership and making appropriate recommendations in response to emerging crisis, overseeing the allocation and approval of sufficient resources towards development and testing of such crisis, management strategy, policy and framework, among others.

The Committee did not meet during the year.

The details of Directors' attendance at Board and Committees during the year ended 31 December 2021 are set out below:*

Director	Main Board	Audit and Risk Committee	Corporate Governance, Nominations and Remuneration Committee	Credit Committee	Strategy Committee
Charles Muchene	5/6**	N/A	4/4	N/A	4/4
Patricia Ithau	6/6	5/6	4/4***	N/A	N/A
Laila Macharia	5/6	6/6 ***	N/A	4/4***	4/4
Louis Otieno	6/6	6/6			N/A
Japh Olende	6/6	N/A	4/4	4/4	N/A
Charles Murito	6/6	N/A	4/4	4/4	N/A
Fulvio Tonelli	6/6	6/6	N/A	4/4	N/A
Jeremy Awori	6/6	N/A	N/A	N/A	4/4
Yusuf Omari	6/6	N/A	N/A	N/A	N/A

** X/Y Denotes the number of meetings attended out of the maximum number of meetings that could have been attended.*
***Chairman of the Board*
**** Committee Chairperson*
All the Directors in office at the time of the Annual General Meeting held on 27 May 2021 attended the AGM either physically or virtually.
Directors who missed meetings during the year due to unavoidable circumstances communicated their apologies to the Board/Committee Chairs ahead of the meeting and provided their input to the deliberations outside the formal meetings.

Directors' induction and continuous education

All newly appointed Non-Executive Directors participate in an induction programme. The induction programme includes a series of meetings with other Directors, the Managing Director and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Company Secretary on Directors' duties and liabilities.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director, arising from one-on-one engagements with the Directors and feedback collated during the annual Board performance evaluation. The Board's program of continuous education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and also in the particular fields relevant to the Company's operations. The Board completed a number of education sessions during the 2021 financial year which took place on 24th June (8am – 4pm), 25th June (8am – 1pm) and 25th November (9.30am -11.30am) (total 13 training hours as indicated in the board training calendar below). . Directors gained insights and a deeper knowledge of the business in various areas such as integrated reporting, reputation risk, ethics, emerging accounting standards, board culture and dynamics, Big Data, cybersecurity threats and key considerations, cloud technology, innovative technologies adopted by the Bank such as Whatsapp banking, among others. Each of the Board Members in office during 2021 met and exceeded the minimum of twelve (12) prescribed training hours on governance areas during the year under review.

Board training schedule – H1, 2021 24 & 25 June 2021

Date and Time	Topic	Trainer
Thursday 24 June 2021		
8.15 – 9.55am	Integrated Reporting	External
10.00 – 11.00am	Reputation Risk	Internal
11.00 – 11.30am	Break	
11.30 – 1.00pm	Ethics	Internal
1.00 – 2.00pm	Lunch	
2.00 – 4.00pm	Emerging Accounting Standards	External
END OF DAY 1		
Friday 25 June 2021		
8.00 – 10.00am	Board culture and dynamics	External
10.00 – 10.30am	Break	
10.30 – 12.30pm	Big Data	Internal
END OF DAY 2		

Board Training Schedule – H2, 2021 25th November 2021

INTRODUCTION AND SESSION	09:30 – 11:30 (120 min)	
Welcome	Chair	09:30 – 09:35
Cyber Security Threats and Key considerations	Internal	09:35 – 10:05
Cloud Technology and Way Forward	Internal	10:05 – 10:35
Demo of innovative technologies adopted by ABSA (Whatsapp banking, DR and patch automation)	Internal	10:35 – 11:20
Q and A	All	11:20 – 11:30

Access to information and independent advice

The Board is entitled to seek any information it requires from any Company employee or from any other source. Independent professional advice is available, on request through the Company Secretary, to all Directors at the Company's expense where such advice is necessary to enable execution of obligations imposed on a Director, a Committee or the Board, to be properly fulfilled. The Board may conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to fulfill its duties. Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information. In addition, Non-executive Directors have full and free access to senior management and other employees of the Company. However, it is expected that either the MD, the executive responsible for the relevant business, or the Company Secretary would be informed in advance of such contact.

Board performance evaluation

The Board has in place a formal process of reviewing and evaluating its performance, that of its Committees, individual Directors including the Board Chairman, Managing Director and the Company Secretary. Evaluation of the Board performance is carried out annually, with an external facilitator being engaged after every two years. Each Director completes a detailed Evaluation Tool designed to obtain feedback on the Board's performance on the following areas:

1. Strategic objectives.
2. Risk governance.
3. Board composition and skills.
4. Board meetings and preparation.
5. Board interaction and support.
6. Performance of governance functions.
7. Performance of Chairman, Managing Director, respective committees, individual Directors and Company Secretary.

In the years that an external facilitator is not engaged, the Chairman leads the assessment of the Board and each Director, together with the Company Secretary.

The review in respect of the 2021 financial year was conducted externally by the firm of Dorion Associates, led by CS. Catherine Musakali, a Certified Public Secretary of Kenya. The evaluation process was based on a detailed Evaluation Tool which was distributed to the Directors for their completion.

The detailed Evaluation Tool examines the balance of the skills of the Directors, the operation of the Board in practice, including governance issues, and the content of the Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the Directors. The Evaluation Tool also included a series of questions for each Director to assess their own performance and the performance of each other individual Director to identify development opportunities.

The Board evaluation was conducted in December 2021 and January 2022. The output from this exercise was collated confidentially by the firm of Dorion Associates. The overall performance evaluation reports on the board, its committees, the Board Chairman, Managing Director and the Company Secretary were presented to and discussed by the full board at a meeting convened for this purpose in February 2022. The individual performance evaluation reports for directors were discussed with the Chairman and individual action plans agreed upon.

A report on this evaluation was submitted to the Central Bank of Kenya in March 2022 in line with regulatory requirements.

The overall results of the 2021 Board Evaluation indicated that the Board and its Committees were operating effectively in all key areas, demonstrating a commitment to effective corporate governance and to nurturing a board culture that is both inclusive and respectful, allowing directors to express their views and to challenge robustly. However, in the spirit of continuous improvement, a few areas were identified where there is scope for further changes. These were then prioritised and the Nominations Committee tasked with the role of monitoring progress. Key recommendations arising from the 2021 evaluation have been identified and their implementation is monitored by the Nominations Committee.

Boards of subsidiary companies

The Company has a number of subsidiary companies. The activities of each subsidiary company are overseen by that company's own Board of Directors. The Board's confidence in the activities of its controlled entities stems from the quality of Directors on those boards of subsidiaries. At least one member of the Board of the Company sits on each of the boards of subsidiaries as a member or chairperson.

Legal and compliance audit

1 Introduction

In compliance with the provisions of the Capital Markets Corporate Governance Code for Issuers of Securities to the Public, 2015 (the CMA Code), an independent legal compliance audit for the financial year ended 31 December 2020 was undertaken with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

2 Governance Responsibility of the Board of Directors

2.1 Absa Bank Kenya PLC (the Company), a publicly listed entity on the Nairobi Securities exchange is regulated under the Capital Markets Act, CAP 485A of the Laws of Kenya, by the Capital Markets Authority.

2.2 Under the CMA Code the Company's Board is required to ensure the following:

2.2.1 Save for when the independent legal and compliance audit is carried out, an internal legal and compliance audit shall be carried out on an annual basis, with the objective of establishing the level of adherence to applicable laws, regulations and standards;

2.2.2 That a comprehensive independent legal audit is carried out at least once every two years by a legal professional in good standing with the Law Society of Kenya; and

2.2.3 That the findings from the audits are acted upon and any non-compliance issues arising are corrected as necessary.

3 Legal and Compliance Auditor's Opinion

3.1 The legal and compliance audit confirmed that during the year ending 31 December 2020 the Company was generally in compliance with applicable laws and regulations including the Capital Markets Act, Companies Act, 2015, the Banking Act, CAP 488, and the Occupational Safety and Health Act, 2007.

3.2 Whilst the Company is generally compliant, we have highlighted in our final legal and compliance audit report a number of areas which need to be reviewed by the Company's management and corrective measures taken. We have provided recommendations on how these areas should be addressed.

3.3 This opinion is subject to the terms of the letter of engagement with the Company dated 7 December 2020 and the final legal and compliance audit report issued on 12 August 2021.

3.4 The independent legal and compliance audit was carried out by Anjarwalla & Khanna LLP, led by Ms. Rosa Nduati-Mutero, an Advocate of the High Court of Kenya in good standing with the Law Society of Kenya.

Rosa Nduati-Mutero
Advocate of the High Court of Kenya

For: Anjarwalla & Khanna LLP

Governance audit

Independent governance auditor's report

1. Introduction

Absa Bank Kenya Plc (the "Company"), in compliance with the Code, appointed Stamford Corporate Services LLP (the "Auditor") to conduct a Governance Audit for the year ended 31 December 2021 which comprised assessment of the governance practices, structures, systems, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the applicable laws and regulations, in particular, the Companies Act, 2015 ("the Act") and the Code of Corporate Governance for Issuers of Securities to the Public ("the Code") as well as the latest developments in corporate governance; and that the Company has adopted best international practices in corporate governance as a means of ensuring sustainability.

2. Basis for opinion

The scope of the Audit is derived from the Code, the Companies Act and the Governance Audit Tool developed by the Institute of Certified Secretaries. It consisted of an assessment of the following elements of corporate governance:

- Leadership and strategic management;
- Transparency and disclosure;
- Compliance with laws and regulations;
- Communication with stakeholders;
- Board independence and governance;
- Board systems and procedures;
- Consistent shareholder and stakeholders' value enhancement;
- Corporate social responsibility and investment; and
- Sustainability.

The content was customised and adapted to the local standards and regulatory issues.

3. Opinion

In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the Company which are in compliance with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders, and in this regard, we issue an unqualified opinion.

CS. Winnie Jumba, GA No. 00064
For: Stamford Corporate Services LLP

Capital Markets Authority (CMA) – Corporate Governance Assessment Report for the year ended 31 December 2020

The Capital Markets Authority assessed the status of implementation of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, by Absa Kenya Plc for the year ended 31 December 2020. The assessment was based on a review of the following areas: Commitment to Good Corporate Governance (Good rating of 50%); Board Operations and Control (Good rating of 71%); Rights of shareholders (Good rating of 73%); Stakeholder Relations (Leadership rating of 80%); Ethics and Social Responsibility (Leadership rating of 85%); Accountability, Risk Management and Internal Control (Leadership rating of 87%); Transparency and Disclosure (Leadership rating of 80%). The overall rating awarded to the Bank was a Leadership Rating of 77% which is a testament to the Board's commitment to sound corporate governance practices.

Shareholder and stakeholder engagement

Annual General Meeting (AGM)

The Company recognises the importance of shareholder participation in meetings. Shareholders are strongly encouraged to attend and participate in the AGM which provides an opportunity for shareholders to engage with the Board and management directly. The Company makes use of the AGM as well as the published annual integrated report as an opportunity to communicate with its shareholders. At the meeting, a reasonable opportunity is allowed for shareholders to ask questions about or make comments on the management of the Company. For the second year in a row, the 2021 AGM was held virtually. This was due to the ongoing COVID-19 pandemic and the restriction on physical meetings. The AGM recorded over 4 100 registered shareholders (representing approximately 77.58% of the shareholding in the Company), with over 700 shareholders who participated in the meeting representing over 76% of the shareholding of the Company.

An online portal was availed to shareholders to facilitate their effective participation at the virtual Annual General Meeting. This portal enabled shareholders to register, attend the meeting, ask questions (either in advance or during the meeting) and vote on all resolutions put to the meeting. To enhance accessibility, the portal was made available online, via USSD and special arrangements were made for registration of shareholders outside Kenya at the time of the meeting. The key agenda items deliberated on at the 2021 Annual General Meeting were the 2020 Audited Financial Statements, election of Directors retiring by rotation and those appointed to fill casual vacancies, appointment of the Members of the Audit and Risk Committee, Directors' remuneration and appointment and remuneration of the Auditors.

The learnings from that meeting will be incorporated in planning future annual general meetings as the business adapts to new ways of working in the new normal.

Shareholding

The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange. The complete list of shareholders is also filed annually with the Registrar of Companies as prescribed by the Companies' Act No 17 of 2015.

Where appropriate, the Company uses media and other communication channels to disseminate pertinent information on its governance or performance to investors and other stakeholders

Engagement with other stakeholders

Investment community

announcements, providing feedback to management and the Board on market views and perceptions about the Company and coordinates roadshows including half-year and full-year results announcements. The Investor Relations team has the primary responsibility for managing and developing the Company's external relationships with existing and potential institutional equity investors. Supported by the Managing Director and the Chief Finance Officer, they achieve this through a combination of briefings to analysts and institutional investors.

All shareholders queries, application for registration of transfer of shares of the Company, immobilization of shares, dividend queries and dividend cheques are handled by the Company's appointed shares registrar – Custody & Registrars Limited (C&R Group). The registrar can be reached at their offices on the 1st Floor, Tower B, IKM Place, 5th Ngong Avenue, P. O. Box 8484 00100, Nairobi or through their

e-mail address info@candrgroup.co.ke and also through their telephone numbers +254 20 869 0360, 0726 971 599, 0737 095124.

The Board recognises the importance of maintaining transparency and accountability in its engagement with the regulators, shareholders and investors and works to ensure that all shareholders are treated equitably, and their rights are protected. The Company is committed to giving our shareholders appropriate information and facilities to enable them to exercise their rights effectively. We are also committed to making sure shareholders and the investment community have appropriate information to make investment decisions. The Company seeks to provide shareholders with information that is timely, accurate, of high quality and relevant to their investment, and to listen and respond to shareholder feedback.

Communication and periodic continuous disclosure

Key stakeholder communication includes the Company's Annual Integrated Report, the Company Sustainability Report and full year, half-yearly and quarterly financial results which are reviewed by the Board and approved prior to circulation and publication. In furtherance of the Board's commitment of ensuring that stakeholders, including shareholders, have access to timely, accurate, quality and pertinent information, the Company publishes all material information on its website, www.absabank.co.ke.

Shareholders are encouraged to visit the website for general information about the Company and to view financial reports, results briefing presentations and policy documents such as the Whistleblowing Policy, the Conflict of Interest Policy, Code of Ethics among others.

The Company thereafter submits material information to the Central Bank of Kenya, the Capital Markets Authority and the Nairobi

Securities Exchange in line with all disclosure requirements in the CBK Prudential Guidelines, the Capital Markets Act and applicable regulations such as the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 , the Banking Act, as well as all other relevant regulation.

Policies and code of ethical conduct, whistle blowing, restrictions on insider trading

Policies and Code of Conduct

The Company maintains and has in place policies and a code of conduct, The Absa Way, which captures not only our legal obligations, but also the reasonable expectations of our stakeholders, including our customers. These policies apply to all employees and Directors of the Company, and to anyone working on the Company's behalf, including contractors and consultants. The Company adopts zero tolerance to all forms of corruption, bribery and unethical business practices. The Policies and Code of Conduct are reviewed regularly by the Board and updated in line with legal developments and best international practice requirements.

Our Code of Conduct, the Absa Way, covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioural requirements and where these are not met, there are consequences. The Company has in place a suite of policies and practices to promote a culture of compliance, honesty and ethical behaviour including in relation to anti-money laundering and counterterrorism financing, whistle blower protection and conflicts of interest. The Code of Ethical Conduct is reviewed by the Board on a regular basis.

Whistle blowing

The Company does not tolerate fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance or questionable accounting or auditing by employees, Directors, customers and contractors. The Company is committed to a culture that encourages all people to speak up about issues or conduct that concerns them and this is governed in the Company's Whistleblowing Policy, a copy of which is available on the Company's website and which is subject to annual review. The Company's whistle-blowing program encourages the reporting of any wrongdoing in a way that protects and supports whistleblowers. The program provides confidential and anonymous communication channels to raise concerns. The confidential and anonymous communications channels are supported and monitored independently by Deloitte, details of which are provided below:

Telephone Communication: Toll free number: 0800 720 012 (Kenya)
E-mail Communication: protect@tip-offs.com

All people are encouraged to raise any issues involving illegal, unacceptable or inappropriate behaviour or any issue that would have a material impact on the organisation's customers, reputation, profitability, governance or regulatory compliance. There is zero tolerance for any actual or threatened act of reprisal against any whistleblower and the Company takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour including, taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistle-blower.

The Audit and Risk Committee receives reports on Whistleblowing on a regular basis (minimum twice a year) and how enquiries into the issues raised were handled. There were no material issues reported during the year.

Restrictions on insider trading

In line with the approved Absa Group Securities Dealing Code and Capital Markets Act and Insider trading Regulations, Directors, employees and contractors (and their associates) are restricted from dealing with any securities and other financial products during closed periods as they possess insider information. They are prohibited from passing on insider information to others who may use the inside information to trade in the company's securities.

The Company has closed periods four times a year prior to the release of the Company's financials during which all related persons, Directors, employees and contractors (and their associates) must not trade in the Company securities. There were no insider dealings during the year.

Board's oversight role in sustainability

The Board is our highest decision-making body for matters of significant importance to the bank due to their strategic, financial or reputational implications or consequences.

At a Group level, in 2019, we adopted the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (PRB) as an overarching sustainability framework. Absa became a founding signatory of the PRB in September 2019. In October 2020, the Absa Group Board approved the elevation of sustainability risk (including climate-related risk) to a principal risk-type in the Enterprise Risk Management Framework.

In Absa Kenya, the Board approved a sustainability commitment in November 2020 as a demonstration of our continued commitment towards people, planet and profit. Our sustainability programme aligns with the Sustainable Development Goals and the Paris Climate Agreement, the UN Global Compact Principles among others.

The Nominations Committee is responsible for monitoring the Sustainability prgramme commitments and climate-related risk as well as the development of the sustainability report.

Details on the sustainability commitments and how they are embedded into the Company's wider business units and integrated into its operations can be found in the Sustainability Commitment Report, which is available on the company website (www.absabank.co.ke).

Risk governance

Risk is an inherent part of the Company's business and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance. This is achieved through the Risk Management Framework of the Company. The Company is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities.

The Board oversees the risk management strategy and framework by considering the risk appetite, prudential capital requirements as well as the strategic and business priorities of the Company. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

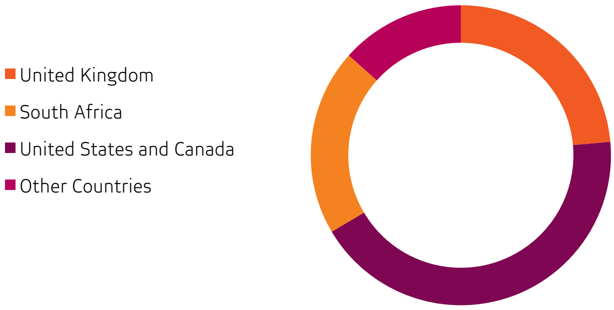
The detailed report on the Company's Risk Management is detailed on pages 68-73 of the annual report.

Shareholding 2021

Summary of Absa Group Limited Shareholding 2021

Major ordinary shareholders

Split by geography



Absa Bank Kenya PLC share register periodic report for December 2021

Absa Bank Kenya PLC share register periodic report for December 2021

Top 10 shareholders

Rank	Name	Domicile	Total Shares	%
1	BARCLAYS AFRICA GROUP LIMITED	FC	3 720 816 000	68.50%
2	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004667	FC	53 613 410	0.99%
3	PATEL, BALOOBHAI; PATEL, AMARJEET BALOOBHAI	LI	42 565 720	0.78%
	Sub-total (top 3)		**3 816 995 130**	**70.27%**
4	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	LC	41 863 390	0.77%
5	STANDARD CHARTERED NOMINEES RESD A/C KE11450	LC	37 857 590	0.70%
6	STANDARD CHARTERED NOMINEES RESD A/C KE11401	LC	34 260 712	0.63%
7	STANDARD CHARTERED NOMINEES RESD A/C KE11443	LC	21 952 300	0.40%
8	STANDARD CHARTERED NOMINEES A/C 9230	LC	17 693 720	0.33%
9	KARIUKI, PATRICK NJOGU	LI	13 963 200	0.26%
10	EQUITY NOMINEES LIMITED A/C 00070	LC	13 676 112	0.25%
	Sub-total (top 10)		**3 998 262 154**	**73.61%**
11	OTHERS		1 433 273 846	26.39%

FC - Foreign company
LC - Local company
LI - Local investor

Absa Bank is a solid international and trusted brand in Africa. We are also a dynamic bank with strong African roots.

Directors' remuneration report

For the year ended 31 December 2021

The Directors' Remuneration Report sets out the policy that the company has applied to remunerate executive and non-executive Directors. The report has been prepared in accordance with the relevant provisions of the CMA Code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015 and the Companies (General) (Amendment) (No.2) Regulations, 2017.

This report covers the remuneration governance arrangements and the 2021 outcomes for the Executive Directors and Non-Executive Directors.

Shareholder engagement

The Directors remuneration report and policy as at 31 December 2020 was subjected to approval by shareholders during the 42nd Annual General Meeting held on 26 May 2021. The shareholders unanimously approved the Directors remuneration report.

The 2021 Directors Report will be presented to the shareholders for approval during the 43rd Annual General Meeting to be held on 26 May 2022.

Fair and responsible remuneration

Our remuneration principles and practices are designed to deliver remuneration that is competitive and fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and is aligned with risks as well as the conduct expectations of the Group. The Board is acutely aware of the need to deliver value to shareholders and to pay for performance and takes this into account when considering management's remuneration.

Fair remuneration is**:**

- Impartial, free from discrimination, prejudice, favouritism or self-interest;
- Rational (not subject to emotion); and
- Purposeful in addressing unfair remuneration differentials.

Responsible remuneration is:

- Approved within appropriate levels of authority;
- Subject to independent oversight;
- Linked to positive outcomes and value creation; and
- Sustainable.

Achievements in the year

Our reward philosophy underpins our growth strategy, entrepreneurial culture and risk management approach. Its objective is to direct the efforts of our colleagues in delivering our strategy of creating sustainable value for all our stakeholders in a fair and responsible way.

Our reward principles

- **Attract, retain and engage high calibre individuals** who have the skills, ambition and talent to deliver our strategy.
- **Support the realisation of our stakeholder aspirations,** with specific focus on rewarding our people for the achievement of our strategy within our risk appetite relative to performance and investor returns.
- **Align the long-term interests of our executives and investors,** by ensuring remuneration outcomes are aligned to the value we create in the short and long term and are transparent. Specific emphasis on increasing longer term incentives for senior and executive employees aligned to market practice.
- **Pay for performance**, by aligning incentive outcomes to performance and value created. Within this, we apply deferrals, and malus and clawback provisions to ensure effective alignment of risk and reward within the context of Group performance outcomes and to discourage inappropriate behaviour.
- **Drive our culture** of being entrepreneurial, while taking ownership and accountability for responsible, sustainable business growth and success: We aim to do this by:
  - Ensuring that all colleagues share in the company's success, differentiated basis on their contribution, in both the short and long term.
  - Ensuring our people's ethical behaviours, values and adherence to our Risk Management principles are recognised in their performance ratings.
- **Continuously build confidence and trust** in our reward outcomes through high quality reward governance, disclosure and engagement with our Investors as well as internal transparency and effective communication.
- **Deliver fair and responsible remuneration,** through regular reviews and disclosure of pay gap metrics, and decisions that influence our most junior employees. Continues emphasis to address differences in reward considering diversity.

Performance Management

Performance management must be fair and have a strong developmental focus. Each colleague agrees to a set of objectives and measures of success against which they are assessed, taking into account both what is delivered and how it is delivered.

This ensures a balance between the achievement of performance objectives and conduct, culture and values. Rating outcomes are subject to a consistency review process to ensure fairness and alignment with overall business performance.

Performance ratings for our Executive directors are subject to oversight by the Group Remuneration Committee. Individual performance ratings are used as a key input to fixed remuneration, short term and long–term incentives.

Where in a full-year individual performance falls below expectations, colleagues are ineligible to receive short-term incentive awards. We aim to continuously improve our colleagues' performance management experience and to build on the success of performance coaching initiatives to assist with colleague development.

2021 elements of remuneration

The Group Remuneration Committee undertook a review of the Group's Remuneration Frameworks in 2021. A key consideration was to make a further progress in regard to pay for performance in support of sustainable business performance, long-term stakeholder value creation and ensuring that Absa's reward practices continue to be market related.

In considering the 2021 remuneration outcomes from a policy perspective, we maintained an emphasis on variable, performance- based remuneration as a significant proportion of the total remuneration mix potential for the most senior employees.

We deliver on our growth strategy and create shareholder value by ensuring retention and high performance of top-quality colleagues. We aim to apply a common remuneration framework and structure across the Bank. While targeting a market median position on total remuneration, we aim to pay above the market median for our top performers and critical skills.

Market positioning is reviewed relative to appropriate market benchmarks, to ensure that outliers, either above or below the overall target market positioning receive attention. This is in line with our commitment to be competitive, fair and to improve overall consistency in our remuneration practice.

Remuneration that is not aligned to market levels can be addressed over time by, among other actions, above-average increases in fixed remuneration or slowing or stopping fixed pay progression for above market positioning.

Our remuneration mix comprises fixed remuneration (total guaranteed package), short-term incentives (cash and deferred, where deferral applies) and long-term incentives (where applicable) in the form of performance shares in Absa Group Limited.

Long-term incentives

Long-term incentive awards, in the form of performance shares, may be awarded to eligible senior colleagues based on criteria set by the Group Remuneration Committee and in accordance with the Policy from time to time. These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition.

2021 long-term incentives

The following amendments, which are applicable to all eligible participants, apply to these awards:

- Participation will be more concentrated and focused only on those individuals who can directly and significantly influence the delivery of the Group's strategy over the 3 year performance period. This ensures alignment of the interests of these individuals with shareholder interests.
- The long-term incentive targets for 2021-2023 reflect the Group's strategic priorities over the performance period.
- Awards may not be made to individuals within one year of contractual retirement (previously three years). This change is to mitigate the possible development of a short-term focus by senior management and executives as they approach retirement. Awards are prorated on retirement and remain subject to Group performance targets

The Group performance targets applicable to all awards made in 2021 were:

- All awards are based on the same performance period (2021-2023).
- The vesting dates will be three years from the date of the award: those made in April 2021 will vest in April 2024, and those made in October 2021 will vest in October 2024.
- The performance targets for these awards reflect the Group's Board-approved strategic priorities over the performance period.

Directors' remuneration report

For the year ended 31 December 2021 (continued)

Implementation of Remuneration Policy for Financial Year 2021

a) Executive Directors' Remuneration

Executive Directors are remunerated in accordance with the company's staff remuneration policy. They receive remuneration appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms, external market and country benchmarks.

The determination of the pay is based on the established salary scale. The remuneration of Executive Directors consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the company's strategic objectives thereby aligning incentives awarded to the creation of sustainable shareholder value.

Executive Directors' Contracts and Termination Arrangements

The Appointment dates for current executive directors are as follows:

Name	Date of Appointment	Type of Contract	Notice period
Jeremy Awori	1 February 2013	Permanent	Six (6) months
Yusuf Omari	1 June 2009	Permanent	Three (3) months

Remuneration

The total Executive Directors' remuneration adjustments in 2020 were, majorly, informed by the overall performance and external market competitiveness.

In the year under review, the executive remuneration for the executive directors were as follows compared to 2019

Jeremy Awori, Managing Director	**2021 Shs**	2020 Shs
Base salary	**35 335 680**	35 335 680
Retirement benefits (pension contribution by employer)	**3 533 568**	3 533 568
Other employee benefits	**27 239 911**	26 866 921
Total fixed remuneration	**66 109 159**	65 736 169
Cash bonus award (non-deferred)	**24 030 814**	-
Deferred bonus/ Cash Value Plan (CVP)	**16 636 716**	17 573 200
Total variable remuneration	**40 667 530**	17 573 200
Total remuneration (cost to company)	**106 776 689**	83 309 369

Yusuf Omari, Chief Financial Officer	**2021 Shs**	2020 Shs
Base salary	**27 545 664**	27 217 737
Retirement benefits (pension contribution by employer)	**2 754 566**	2 721 774
Other employee benefits	**7 576 016**	7 817 349
Total fixed remuneration	**37 876 246**	37 756 860
Cash bonus award (non-deferred)	**12 947 049**	7 000 000
Deferred bonus/ Cash Value Plan (CVP)	**5 552 951**	-
Total variable remuneration	**18 500 000**	7 000 000
Total remuneration (cost to company)	**56 376 246**	44 756 860

Long-Term Incentive Plans

	Jeremy Awori		Yusuf Omari	
	2021 Shs	2020 Shs	**2021 Shs**	2020 Shs
Share Incentive Plan Retention Award	**-**	-	**6 747 474**	-
Share Incentive Plan Deferred Award	**6 338 186**	9 865 330	**296 336**	2 512 554
Share Incentive Plan Performance Award	**29 621 298**	23 137 195	**6 747 474**	7 544 076
Total Emoluments	**35 959 484**	33 002 525	**13 791 284**	10 056 630

These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition.

b) Non-executive Directors' fees

The non-executive directors' fees are determined through a survey conducted by Absa Group Limited to look at competitive rewards. The same is recommended to the board of Absa Bank Kenya PLC who proceed to approve.

The following is considered when setting the fees for our non-executive directors

- Benchmark against the fees paid by large listed companies
- General level of inflationary increase applied to our employee
- Time commitment expected from our Directors

Non-executive directors do not have employment contracts with the company and therefore do not participate in any of the company's incentive plans.

The non-executive director's fees are reviewed every two years and revised appropriately. The current fees were effective 1 January 2020 and were approved by the board in the meeting held on 23 March 2020. These fees are subject to a review effective 1 January 2022.

The Board Chairman is entitled to an annual retainer of Shs 8 131 200 for performing all the duties of the chairman of the board and is not entitled to any additional retainer for his membership of any of the committees of the Company.

Other non-executive directors are entitled to an annual retainer, payable quarterly in arrears, depending on their roles on the board, its committees and on the boards of subsidiary companies, as outlined below:

	2021		2020	
Capacity	**Chairman**	**Member**	Chairman	Member
Board of Directors	**-**	**2 784 320**	-	2 784 320
Audit Committee	**1 084 160**	**542 080**	1 084 160	542 080
Credit Committee	**813 120**	**406 560**	813 120	406 560
Strategy Committee	**813 120**	**406 560**	813 120	406 560
Corporate Governance, Nominations & Remuneration Committee	**813 120**	**406 560**	813 120	406 560

Directors' remuneration report

For the year ended 31 December 2021 (continued)

Implementation of Remuneration Policy for Financial Year 2021 (continued)

b) Non-executive Directors' fees (continued)

Non-Executive Directors	Date of Appointment	Total Emoluments 2021	Total Emoluments 2020
		Shs	Shs
Charles Muchene	22 August 2016	**8 131 200**	8 131 200
Japheth Olende	7 March 2018	**6 114 515**	6 122 270
Patricia Ithau	23 February 2016	**6 004 020**	5 292 540
Louis Otieno	7 March 2018	**6 004 020**	5 883 900
Laila Macharia	August 2014	**5 088 160**	4 173 400
Fulvio Tonelli	1 October 2020	**3 732 960**	831 600
Charles Murito	24 June 2020	**3 597 440**	1 595 440
Ashok Shah	July 2011	**-**	3 566 640
Winnie Ouko	August 2014	**-**	4 191 184
Total		**38 672 315**	39 788 174

Statement regarding compliance with remuneration policy

The Board's responsibility under this policy is oversight and through its Corporate Governance and Nominations Committee, has satisfied itself that the remuneration policy as detailed in the 2021 remuneration report was complied with, and there were no substantial deviations from the policy during the year.

Approval of Remuneration Report by the Board of directors

This remuneration report was approved by the Board of Directors on 15 March 2022.

Charles Muchene
Chairman

Report of the Directors

for the year ended 31 December 2021

The directors submit their report together with the audited financial statements for the year ended 31 December 2021 in accordance with Section 22 of the Banking Act and Section 650(1) of the Kenyan Companies Act 2015 which discloses the state of affairs of Absa Bank Kenya PLC (the "Company"/"Bank") and its subsidiaries (together the "Group").

Company registration number	C.18208	
Country of incorporation and domicile	Kenya	
Nature of business and principal activities	The Company is registered as a bank under the Banking Act. The Group is engaged in the business of banking and the provision of related services.	
Directors	The directors who served during the year and to date of this report are	
	C K Muchene	Chairman
	JH Awori*	Managing Director
	YK Omari*	Chief Financial Officer
	LN Macharia	
	PE Ithau	
	JO Olende	
	LO Otieno	
	C N Murito	
	Fulvio Tonelli	
	*Executive directors	
Registered office	Absa Bank Headquarters Waiyaki Way PO Box 30120 - 00100 Nairobi	
Parent company	Absa Group Limited	
Auditors	Ernst and Young LLP 1st Floor, Kenya Re Towers Upper Hill P.O. Box 44286 – 00100 Nairobi	
Company secretary	Loise Gakumo	
Dividend	No interim dividend was paid during the year. The directors recommend the payment of Shs 1.10 per share as final dividend in respect of the year ended 31 December 2021.	

Report of the Directors (continued)

for the year ended 31 December 2021

Results/Business review

Summary results	Group 2021 Shs'million	Group 2020 Shs'million	Bank 2021 Shs'million	Bank 2020 Shs'million
Profit for the year	**10 870**	4 163	**10 298**	3 745
Total comprehensive income	**9 885**	5 005	**9 326**	4 581
Income tax expense	**(4 679)**	(1 484)	**(4 428)**	(1 355)
Dividends declared and paid				
-Interim declared and paid	**-**	-	**-**	-
-Final proposed	**5 975**	-	**5 975**	-
Net assets	**56 448**	46 505	**54 355**	44 971

The financial results of the Group and the Bank are as set out within this document. A summary has been included above. The principle risks and uncertainties facing the Group and Bank as well as the risk management framework are outlined in note 40 of the Consolidated and Bank financial statements.

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 33.

Events after the reporting date

The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2021 and the date of authorization of these consolidated annual financial statements.

Auditors

As part of the auditor rotation process, EY shall retire as auditors of the Company at the annual general meeting. The directors will recommend the appointment of KPMG as the Company auditor for the year ending 31 December 2022 at the same meeting.

Going concern

The annual financial statements have been prepared based on accounting policies applicable to a going concern.

Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Company's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 15 March 2022

Company Secretary

Loise Gakumo

Statement of Directors' responsibilities

for the year ended 31 December 2021

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of Absa Bank Kenya PLC ("the Bank"/ "the company") and its subsidiaries (together the "Group") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors and employees endeavour to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach;
- The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- The board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints;
- The internal audit function, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- The internal auditors play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Kenyan Companies Act, 2015 requires the directors to prepare the financial statement for each financial year which give a true and fair view of the financial position of the Group at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Group keeps proper accounting records that are sufficient to show and explain the transactions of the Group; disclose with reasonable accuracy at any time the financial position of the Group; and that enables them to prepare financial statements of the Group and Bank that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The financial statements of the Bank have been prepared in accordance with the provisions of the Kenyan Companies Act, 2015 and comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

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

They also accept responsibility for:

i. designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then applying them consistently; and

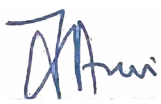
iii. making judgements and accounting estimates that are reasonable in the circumstances.

The directors have no reason to believe that the Bank will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on this basis.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

The Group and Bank financial statements as indicated above were approved and authorised for issue by the board of directors. The report of the directors on pages 98 to 99 and the financial statements of the company which appear on pages 105 to 208 were approved and authorised for issue by the board of directors on 15 March 2022.

Charles Muchene
Chairman



Jeremy Awori
Managing Director

Report of the the Independent Auditor

to the members of Absa Bank Kenya PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Kenya PLC ('the Bank') and its Subsidiaries (together 'the Group') set out on pages 105 to 208, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

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

Report of the the Independent Auditor

to the members of Absa Bank Kenya PLC

financial statement

Key Audit Matters (continued)	
Key Audit Matter	**How our audit addressed the key audit matter**
Expected credit losses on financial assets, including off balance sheet amounts The expected credit loss (ECL) allowances for loans and advances are significant in the context of the financial statements due to their magnitude and the significant level of judgement required in determining the value of the allowances. We have identified the audit of the ECL allowances as a key audit matter. We focussed on the following areas of significant judgement and estimation: • **Modelled ECL provisions** A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. We also considered the completeness and accuracy of data inputs into the models. • **Estimation and application of multiple forward-looking macro-economic scenarios** These scenarios are incorporated into the modelled ECL estimation based on modelled correlations to the ECL model parameters. The scenario forecasts are provided by Absa's group economics unit. • **Post model adjustments** Adjustments are applied to ECL model outputs where the models are unable to fully incorporate factors which impact on the ECL. • **Evaluation of significant increases in credit risk (SICR)** Absa assesses SICR based on the current risk of default of an account relative to its risk of default at origination. This is assessed utilising these key measures: - Relative PD movements - Qualitative indicators of heightened customer default risk - Individual exposure early watch list classifications (wholesale portfolios) • **Stage 3 ECL provisions assessed on an individual basis** A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank and Business Bank portfolios. Significant judgements, estimates and assumptions are applied by management to: - Determine if the financial asset is impaired; - Evaluate the valuation and recoverability of collateral; - Determine the expected future cash flows to be collected; and - Estimate the timing of the future cash flows. The disclosure associated with Credit Risk is set out in the financial statements in Note 2.14.4 on expected credit losses on financial assets, Note 3 on critical accounting judgements and key sources of estimation uncertainty, Note 3.8 on impairment losses on loans and advances, Note 40.2 on credit risk, and Notes 15, 18, 19, 20 and 21 on impairment disclosures.	Our audit testing included the following procedures in addressing the key audit matter. We evaluated the IFRS 9 accounting policies, and the appropriateness of the disclosures for credit risk and ECL methodologies applied, and compared these to the requirements of IFRS 9: Financial Instruments. We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes. • **Modelled ECL provisions** With the assistance of our credit risk quantitative specialists, we assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9. We assessed the appropriateness of the models through reperformance and testing of management's monitoring and validation controls. We also traced a sample of data inputs back to source. • **Estimation and application of multiple forward-looking macro-economic scenarios** With assistance from our economics specialists, we assessed the appropriateness of the macro-economic forecasts by benchmarking these against external evidence and economic data. Through our model reperformance, we tested the incorporation of the forecasts into the models. We performed sensitivity analyses on the forecasts to assess the reasonability impact of the scenarios on the modelled ECL. • **Post model adjustments** We assessed the data, assumptions and judgements applied by management when estimating the post model adjustments. We recalculated a sample of post-model adjustments. • **Evaluation of significant increases in credit risk (SICR)** We assessed the appropriateness of Absa's SICR methodologies and calibrations and, with the assistance of our credit risk quantitative specialists, reperformed stage allocations for a sample of portfolios and individual exposures. • **Stage 3 ECL provisions assessed on an individual basis** We tested management's processes and judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments. Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We performed the following for a sample of stage 3 exposures: - Where exposures are collateralised, we tested Absa's legal right to the collateral, as well as the reasonability of the valuation of the collateral. Where management has utilised specialists, we assessed controls related to their competence and objectivity. - Where future cash flows are estimated based on a valuation of the loan counterparty's underlying business, we tested these valuations with reference to available market information and counterparty specific information. We utilised our valuation specialists for a sample of more complex assessments.

Report of the the Independent Auditor

to the members of Absa Bank Kenya PLC

Other Information

The directors are responsible for the other information. The other information comprises Corporate Information, the Report of the Directors as required by the Kenyan Companies Act, 2015 and the Directors' Remuneration Report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

When we read the contents of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matters to the directors.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

The directors are responsible for overseeing the Group and the Bank's financial reporting processes.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank'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 and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Bank 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 consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report of the the Independent Auditor

to the members of Absa Bank Kenya PLC

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

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 98 to 99 is consistent with the consolidated financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on page 91 to 95 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Allan Gichuhi practicing certificate number 1899.

Allan Gichuhi

For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya
31 March 2022

EY
Building a better working world

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Interest and similar income	4	**32 038**	31 440
Interest expense and similar charges	5	**(6 781)**	(8 059)
Net interest income		**25 257**	23 381
Fee and commission income	6	**7 001**	6 234
Fee and commission expense	6	**(844)**	(716)
Net fee and commission income		**6 157**	5 518
Net trading income	7	**4 784**	5 129
Other operating income	8	**102**	53
Total income		**36 300**	34 081
Impairment losses on financial instruments	9	**(4 087)**	(8 585)
Net operating income		**32 213**	25 496
Employee benefits	10	**(9 593)**	(11 312)
Infrastructure costs	11	**(792)**	(1 361)
Administration and general expenses	12	**(5 378)**	(5 830)
Depreciation of property and equipment	24	**(769)**	(1 022)
Amortisation of intangible assets	25	**(132)**	(324)
Operating expenses		**(16 664)**	(19 849)
Profit before tax		**15 549**	5 647
Income tax expense	13	**(4 679)**	(1 484)
Profit for the year		**10 870**	4 163
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit	27	**(424)**	59
Deferred income tax	28	**127**	(18)
		(297)	41
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value (losses)/ gains arising during the reporting period	18	**(983)**	1 144
Deferred income tax	28	**295**	(343)
		(688)	801
Total other comprehensive (loss)/profit for the year, net of tax		**(985)**	842
Total comprehensive income for the year, net of tax		**9 885**	5 005
Earnings per share			
Basic (Shillings per share)	14	**2.00**	0.77

Bank statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Interest and similar income	4	**31 988**	31 394
Interest expense and similar charges	5	**(6 878)**	(8 113)
Net interest income		**25 110**	23 281
Fee and commission income	6	**5 809**	5 245
Fee and commission expense	6	**(713)**	(572)
Net fee and commission income		**5 096**	4 673
Net trading income	7	**4 784**	5 129
Other operating income	8	**118**	63
Total income		**35 108**	33 146
Impairment losses on financial instruments	9	**(4 086)**	(8 585)
Net operating income		**31 022**	24 561
Employee benefits	10	**(9 297)**	(10 995)
Infrastructure costs	11	**(789)**	(1 325)
Administration and general expenses	12	**(5 321)**	(5 805)
Depreciation of property and equipment	24	**(769)**	(1 022)
Amortisation of intangible assets	25	**(120)**	(314)
Operating expenses		**(16 296)**	(19 461)
Profit before tax		**14 726**	5 100
Income tax expense	13	**(4 428)**	(1 355)
Profit for the year		**10 298**	3 745
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit	27	**(424)**	59
Deferred income tax	28	**127**	(18)
		(297)	41
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value (losses)/gains arising during the reporting period	18	**(964)**	1 136
Deferred income tax	28	**289**	(341)
		(675)	795
Total other comprehensive (loss)/profit for the year, net of tax		**(972)**	836
Total comprehensive income for the year, net of tax		**9 326**	4 581
Earnings per share			
Basic (Shillings per share)	14	**1.90**	0.69

Consolidated statement of financial position

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**21 009**	18 260
Loans and advances to banks	19	**3 007**	5 648
Financial assets at fair value through profit or loss	16	**44 196**	36 375
Derivative financial instruments	17	**1 120**	2 679
Financial assets at fair value through other comprehensive income	18	**88 380**	89 682
Due from group companies	45	**19 058**	2 676
Loans and advances to customers	20	**234 234**	208 855
Other assets and prepaid expenses	21	**10 050**	7 709
Current income tax	36	**-**	993
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 369**	2 809
Other intangible assets	25	**481**	414
Leasehold land	26	**33**	34
Deferred income tax	28	**4 738**	3 188
Retirement benefit asset	27	**-**	72
Total assets		**428 722**	379 441
Equity and liabilities			
Liabilities			
Deposits from banks	30	**4 809**	4 076
Derivative financial instruments	17	**1 344**	1 171
Due to group companies	45	**67 143**	50 029
Deposits from customers	31	**268 717**	253 630
Borrowings	32	**8 505**	8 211
Current income tax	36	**2 521**	-
Other liabilities and accrued expenses	29	**18 872**	15 819
Retirement benefit liability	27	**363**	-
Total liabilities		**372 274**	332 936
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**47 251**	42 524
Fair value reserve	34	**394**	1 082
Share-based payment reserve	34	**112**	183
Proposed dividends	46	**5 975**	-
Total equity		**56 448**	46 505
Total equity and liabilities		**428 722**	379 441

The financial statements on pages 105 to 208 were approved and authorised for issue by the Board of Directors on 15 March 2022 and signed on its behalf by:

Chairman: Charles Muchene

Managing Director: Jeremy Awori

Chief Financial Officer: Yusuf Omari

Company Secretary: Loise Gakumo

Bank statement of financial position

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**21 009**	18 260
Loans and advances to banks	19	**3 007**	5 648
Financial assets at fair value through profit or loss	16	**44 196**	36 375
Derivative financial instruments	17	**1 120**	2 679
Financial assets at fair value through other comprehensive income	18	**87 972**	89 164
Due from group companies	45	**19 385**	2 934
Loans and advances to customers	20	**234 234**	208 855
Other assets and prepaid expenses	21	**9 838**	7 654
Investment in subsidiaries	22	**463**	428
Current income tax	36	**-**	773
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 369**	2 809
Other intangible assets	25	**418**	343
Leasehold land	26	**33**	34
Deferred income tax	28	**4 677**	3 141
Retirement benefit asset	27	**-**	72
Total assets		**428 768**	379 216
Equity and liabilities			
Liabilities			
Deposits from banks	30	**4 809**	4 076
Derivative financial instruments	17	**1 344**	1 171
Due to group companies	45	**67 143**	50 066
Deposits from customers	31	**270 737**	254 909
Borrowings	32	**8 505**	8 211
Current income tax	36	**2 750**	-
Other liabilities and accrued expenses	29	**18 762**	15 812
Retirement benefit liability	27	**363**	-
Total liabilities		**374 413**	334 245
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**45 156**	41 001
Fair value reserve	34	**396**	1 071
Share-based payment reserve	34	**112**	183
Proposed dividends	46	**5 975**	-
Total equity		**54 355**	44 971
Total equity and liabilities		**428 768**	379 216

The financial statements on pages 105 to 208 were approved and authorised for issue by the Board of Directors on 15 March 2022 and signed on its behalf by:

Chairman: Charles Muchene

Managing Director: Jeremy Awori

Chief Financial Officer: Yusuf Omari

Company Secretary: Loise Gakumo

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2020	2 716	281	209	37 095	4 888	45 189
Profit for the year	-	-	-	4 163	-	4 163
Other comprehensive profit for the year	-	801	-	41	-	842
Total comprehensive income for the year	-	801	-	4 204	-	5 005
Derecognition of share-based payments	-	-	(26)	-	-	(26)
Final dividend for 2019 paid	-	-	-	-	(3 663)	(3 663)
Dividend waived	-	-	-	1 225	(1 225)	-
Balance at 31 December 2020	2 716	1 082	183	42 524	-	46 505
Balance at 1 January 2021	**2 716**	**1 082**	**183**	**42 524**	**-**	**46 505**
Profit for the year	**-**	**-**	**-**	**10 870**	**-**	**10 870**
Other comprehensive loss for the year	**-**	**(688)**	**-**	**(297)**	**-**	**(985)**
Total comprehensive income for the year	**-**	**(688)**	**-**	**10 573**	**-**	**9 885**
Recognition of share-based payments	**-**	**-**	**58**	**-**	**-**	**58**
Reclassification to retained profit (Note 2.26)	**-**	**-**	**(129)**	**129**	**-**	**-**
Proposed final dividend 2021	**-**	**-**	**-**	**(5 975)**	**5 975**	**-**
Balance at 31 December 2021	**2 716**	**394**	**112**	**47 251**	**5 975**	**56 448**

Bank statement of changes in equity

for the year ended 31 December 2021

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2020	2 716	276	209	35 990	4 888	44 079
Profit for the year	-	-	-	3 745	-	3 745
Other comprehensive profit for the year	-	795	-	41	-	836
Total comprehensive income for the year	-	795	-	3 786	-	4 581
Derecognition of share-based payments	-	-	(26)	-	-	(26)
Final dividend for 2019 paid	-	-	-	-	(3 663)	(3 663)
Dividend waived	-	-	-	1 225	(1 225)	-
Balance at 31 December 2020	2 716	1 071	183	41 001	-	44 971
Balance at 1 January 2021	**2 716**	**1 071**	**183**	**41 001**	**-**	**44 971**
Profit for the year	**-**	**-**	**-**	**10 298**	**-**	**10 298**
Other comprehensive loss for the year	**-**	**(675)**	**-**	**(297)**	**-**	**(972)**
Total comprehensive income for the year	**-**	**(675)**	**-**	**10 001**	**-**	**9 326**
Recognition of share-based payments	**-**	**-**	**58**	**-**	**-**	**58**
Reclassification to retained profit (Note 2.26)			**(129)**	**129**	**-**	**-**
Proposed final dividend 2021	**-**	**-**	**-**	**(5 975)**	**5 975**	**-**
Balance at 31 December 2021	**2 716**	**396**	**112**	**45 156**	**5 975**	**54 355**

Consolidated statement of cash flows

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(20 481)**	(23 156)
Interest received		**28 585**	31 440
Interest paid		**(5 353)**	(8 059)
Income taxes paid	36	**(2 289)**	(2 478)
Net cash generated/(used) from operating activities		**462**	(2 253)
Cash flows from investing activities			
Payments for property and equipment	24	**(420)**	(555)
Payments for intangible assets	25	**(201)**	(120)
Net cash used in investing activities		**(621)**	(675)
Cash flows from financing activities			
Repayment of principal portion of lease liabilities		**(374)**	(412)
Dividends paid to owners of the company	37	**-**	(3 663)
Net cash used in financing activities		**(374)**	(4 075)
Net (decrease) in cash and cash equivalents		**(533)**	(7 003)
Cash and cash equivalents at the beginning of the year		**13 129**	20 132
Cash and cash equivalents at the end of the year	38	**12 596**	13 129

Bank statement of cash flows

for the year ended 31 December 2021

	Notes	2021 Shs'million	2020 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(20 614)**	(23 267)
Interest received		**28 550**	31 394
Interest paid		**(5 450)**	(8 113)
Income taxes paid	36	**(2 024)**	(2 239)
Net cash generated/(used) from operating activities		**462**	(2 225)
Cash flows from investing activities			
Investment in subsidiary		**(35)**	(55)
Payments for property and equipment	24	**(420)**	(555)
Payments for intangible assets	25	**(197)**	(118)
Net cash used in investing activities		**(652)**	(728)
Cash flows from financing activities			
Repayment of principal portion of lease liabilities			
Dividends paid to owners of the company	37	**(374)**	(412)
Net cash used in financing activities		**–**	(3 663)
		(374)	(4 075)
Net (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**(564)**	(7 028)
Cash and cash equivalents at the end of the year	38	**13 074**	20 102
		12 510	13 074

Summary of accounting policies

for the year ended 31 December 2021

1. General information and statement of compliance

Absa Bank Kenya PLC (the "Bank"/"the Group") is a public limited company, incorporated and domiciled in Kenya. Its shares are listed on the Nairobi Securities Exchange. The address of its registered office is:

Absa Bank Headquarters

Waiyaki Way

PO Box 30120-00100

Nairobi

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Kenyan Companies Act, 2015, as amended.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and profit or loss account by the statement of comprehensive income in these financial statements.

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates) which is the Kenya Shilling.

The consolidated and separate financial statements are presented in millions of Kenya Shilling (Shs'million), the presentation currency of the Group.

2. Significant accounting policies

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

2.1 Adoption of new and revised accounting standards

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2021. For details of the new and revised accounting policies refer to note 48.

2.2 Basis of preparation

The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. The annual financial statements have been prepared based on accounting policies applicable to a going concern.

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 41.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria has been met.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (together the "Group"). Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquation rights
- Whether the Bank is exposed or has rights, to variable returns from its involvement with the investee and has power to affect the variability of such returns

The Bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right.

Subsidiaries (including controlled structured entities) are fully consolidated from the date on which control is transferred to the Bank. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, NCI and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Income and expenses of subsidiaries acquired or disposed during the year are included in the statement of profit or loss from the effective date of acquisition and up to the effective date of loss of control, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

Summary of accounting policies

for the year ended 31 December 2021

2. *Significant accounting policies (continued)*

2.4 Non-current assets held for sale

Non-current assets (or disposal group's comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold. Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.5 Revenue recognition

Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income, as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest rate method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

The Group also presents as part of net interest income, albeit separate from effective interest income and effective interest expense, other interest income and other interest charges, which are not calculated on the effective interest method.

Interest income/expense on all trading financial assets/liabilities is recognised as part of the fair value change in net trading income.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial assets.

When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

Net trading income

Trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.
Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.
Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under net trading income together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

Net fee and commission income

Net fee and commission income is calculated by subtracting fee and commission charges from fee and commission income. Fee and commission income relates to revenue earned for the rendering of services and is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties, such as value added taxes. When the Bank is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Bank is, in this case, recognised as income.

Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered, which is either over the period over which the performance obligation is discharged; or at a point in time, should the performance obligation be discharged at a point in time.

Under IFRS 15 Revenue from Contracts with Customers, entities are required to recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission expenses are expenses which are connected to the generation of fee and commission income. Operating expenses that happen to take the form of a fee payment are recognised within 'Operating expenditure', or other appropriate line item based on the nature of the cost.

2.6 Foreign currencies

In preparing the consolidated annual financial statements, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2.7 Employee benefits

Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

Defined benefit scheme

The Group recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date. Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Re-measurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Defined contribution scheme

The Group operates a defined contribution scheme for majority of its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contribution from both the Group and employees. The Group and its employees also contribute to the National Social Security Fund as determined by local statutes.

The Group recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

Summary of accounting policies

for the year ended 31 December 2021

2. *Significant accounting policies (continued)*

2.8 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

Employee services settled in equity instruments (continued)

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.9 Taxation

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

Current taxation

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

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise.

Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.9 Taxation (continued)

Current and deferred tax

Current and deferred tax movements are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Levies and similar charges

The Group recognises the liability arising from levies and similar charges when it becomes legally enforceable (i.e., when the obligating event arises) which is on 31 December each year.

2.10 Property and equipment

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Land and buildings comprise mainly of branches and offices. Freehold land is not depreciated.

Useful lives of property and equipment	Useful lives Years
Property and equipment	
Buildings;	
Leases over 50 years	50
Leases under 50 years	Over the remaining life
Rented premises	6
Freehold buildings	50
Leasehold improvements	Over the remaining lease period
Fixtures, fittings and equipment	5
Motor vehicles	5

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.11 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets	
Flexcube (Core banking application)	10
Other software	5

De-recognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.12 Impairment of tangible and intangible assets (excluding goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.
An asset's recoverable amount is the higher of an asset's or 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 groups of assets.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Provisions, contingent liabilities and undrawn commitments

Provisions

Provisions for legal claims or restructuring are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

Undrawn commitments

Under IFRS 9, the ECL calculated on financial guarantees and letters of credit are presented as provisions on the statement of financial position. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments

2.14.1 Initial recognition of financial assets and financial liabilities

The Group recognises financial assets and liabilities when it becomes party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

2.14.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data. When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day one profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

2.14.3 *Classification and measurement of financial instruments*

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group assesses the objective of a 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 factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales. The Group reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

2.14.3.1 *Debt Instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Group classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as effective interest within Interest and similar income using the effective interest rate method.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

2.14.3.1 Debt Instruments (continued)

Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in gains and losses from banking and trading activities in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as gains and losses from banking and trading activities or gains and losses from investment activities in profit or loss.

2.14.3.2 *Financial liabilities*

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

2.14.3.3 *Derivatives*

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, and derivative assets and liabilities.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, and derivative assets and liabilities.

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Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category (as defined by IFRS 9)</th><th colspan="2">Class (as determined by the Group)</th><th>Sub classes</th></tr>
<tr><td rowspan="14">Financial assets</td><td rowspan="2">Fair value through profit or loss (FVPL)</td><td rowspan="2">Financial assets held for trading</td><td>Investment in debt securities</td><td></td></tr>
<tr><td>Derivative assets</td><td></td></tr>
<tr><td rowspan="11">Amortised cost</td><td colspan="3">Loans and advances to banks</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</td><td>Overdrafts</td></tr>
<tr><td>Credit cards</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Large corporate customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td colspan="3">Items in course of collection</td></tr>
<tr><td colspan="3">Cash and balances with Central Bank of Kenya</td></tr>
<tr><td>Fair value through other comprehensive income (FVOCI)</td><td>Investment in debt securities</td><td></td><td></td></tr>
<tr><td rowspan="8">Financial liabilities</td><td rowspan="8">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td><td>-</td></tr>
<tr><td>Large corporate customers</td><td>-</td></tr>
<tr><td>SMEs</td><td>-</td></tr>
<tr><td colspan="3">Items in course of collection</td></tr>
<tr><td colspan="3">Borrowings</td></tr>
<tr><td colspan="3">Due to group companies</td></tr>
<tr><td colspan="3">Other liabilities</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>

2.14.4 Expected credit losses on financial assets

The Group recognises ECL based on unbiased forward-looking information. ECL is recognised on all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments not measured at fair value and financial guarantee contracts not measured at fair value.

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings. Credit losses are the present value of the difference between:

- all contractual cash flows that are due to an entity in accordance with the contract; and
- all the cash flows that the entity expects to receive.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 *Expected credit losses on financial assets (continued)*

Three-stage approach to ECL

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (hereafter referred to as 12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the credit allowance). The stage allocation is required to be performed as follows:

Stage 1	This stage comprises exposures which are performing in line with the Group's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Group's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Group.
Stage 2	Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These factors have been set out in note 40.2. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Group's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage.
Stage 3	Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) has been met.

Expected credit loss calculation

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 month-ECL and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 *Expected credit losses on financial assets (continued)*

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Group is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Group, this applies to overdrafts, credit cards and other revolving products.

These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Write -off

The gross carrying amount of a financial asset shall be directly reduced (that is, written off)) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a de-recognition event for accounting purposes. Depending on the nature of the account, balances are written off when:

- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

A qualifying payment, for use in the write-off assessment, is defined as the minimum monthly contractual payment due.

Indicators which suggest that an account is not economically viable to retain on the statement of financial position are as follows (but do not represent an exhaustive list):

- The exposure is unsecured, i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure; and
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

2.14.5 De-recognition of financial instruments

De-recognition of financial assets

In the course of its normal banking activities, the Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficially (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.5 De-recognition of financial instruments *(continued)*

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

2.14.6 Modification of financial assets and financial liabilities

Modification of financial assets

With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Group assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

- Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.
- When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.14.7 Financial guarantee contracts

A financial guarantee contract is a contract that requires 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. Financial guarantee contracts are initially recognised in the financial statements at fair value at the date that the guarantee was given.

Other than where the fair value option is applied subsequent to initial recognition, the entity's liabilities under such contracts are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.

2.14.8 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions.

2.14.8 Loan commitments (continued)

Loan commitments are measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.9 Credit enhancement: Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, receivables, other non-financial assets and credit enhancements such as netting agreements.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis.

To the extent possible, the Bank uses active market data for valuing both financial and non-financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral are valued based on data provided by third parties and other independent sources.

2.15 Letters of credit acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing bank

At initial recognition where the Group is the issuing bank it recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions of the underlying contract be met.

On the date that all terms and conditions underlying the contract are met, the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Group recognises a financial liability (at fair value) on the statement of financial position as part of liabilities for the contractual obligation to pay the beneficiary or the confirming bank, depending on the structure of the arrangement.

(ii) Confirming bank

On the date that all terms and conditions underlying the contract are met the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on the statement of financial position as part of liabilities for the contractual obligation to pay the beneficiary.

2.16 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.16 Fair value (continued)

The Group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Group:

- manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the Group's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2.17 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Bank. The corresponding loans are derecognised when the Bank becomes the holder of the title deed.

The properties acquired are initially recorded at cost, which is the lower of their fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired properties to net realisable value is recognised in the statement of comprehensive income, in 'Other impairments'. Any subsequent increase in net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'Other impairments'.

Gains or losses on disposal of repossessed properties are reported in 'Other operating income' or 'Operating expenses', as the case may be.

2.18 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board.

2.19 Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises balances with maturities of less than 90 days and include cash on hand, balances with Central Bank of Kenya (excluding restricted balances – cash reserve ratio), items in the course of collection and deposits and deposits and balances due from and due to banking institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

2.21 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

2.22 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 Country Management 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. In accordance with IFRS 8, the Group has the following business segments: Consumer banking and Corporate banking.

2.23 Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared, in accordance with the Kenyan Companies Act, 2015.

Summary of accounting policies

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.24 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) The Group is the lessee

Where the Group is a lessee, a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation recognised on a straight-line basis over the lease term. The right of use asset is included within "property and equipment" in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease , if readily determinable, or the lessee's incremental borrowing rate. After the commencement date, a lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability determined and reducing the carrying amount to reflect the lease payments made.

Any revisions to in-substance fixed lease payments, reassessment or lease modifications will be reflected by re-measuring the carrying amount. In erest is recognised within net interest income and

the lease liability is included within "other liabilities" in the statement of financial position.

The lease payments in relation to short term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight line basis over the lease term.

(b) The Group is the lessor

Finance lease

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Group is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance income on the receivable is allocated over the lease term on a systematic basis so as to reflect a constant periodic rate of return on the lessor's net investment in the finance lease.

Operating leases

An operating lease is a lease in which substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets on the statement of financial position within property and equipment.

2.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group did not have any qualifying assets during the year.

2.26 Reporting changes overview

The financial reporting changes that have had an impact on the Group's results for the comparative periods ended 31 December 2021 include:

2.26.1 Reclassification changes

In the year the bank reclassified an amount of Shs 129 million in relation to employee share based incentive schemes which were previously under Barclays Plc. The schemes have since been discontinued following the change in group structure.

3. Judgements and estimates

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

Judgements made by management that could have a significant effect on the amounts recognised in the financial statements include:.

Summary of accounting policies

for the year ended 31 December 2021

3. Judgements and estimates (continued)

3.1 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair value hierarchy for these financial instruments is shown in Note 42.

The IVC independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from independent external parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from independent external sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Judgmental inputs on valuation of principal instruments.

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

(a) Debt securities and treasury and other eligible bills

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined with reference to quoted market prices for similar instruments or, in the case of certain instruments, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

b) Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates and foreign currencies. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models.

c) Loans and advances

The fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

d) Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics.

The fair value of amortised cost deposits repayable on demand is considered equal to their carrying value. For other financial liabilities at amortised cost, the disclosed fair value approximates the carrying value because the instruments are short-term in nature or have interest rates that reprice frequently..

3.2 Effective interest rate

The Bank's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument.

3.3 Provisions

In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a provision is recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

3.4 Share-based payments

The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Group may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Group's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data.

Summary of accounting policies

for the year ended 31 December 2021

3. Judgements and estimates (continued)

3.4 Share-based payments (continued)

In the case of cash-settled share-based payment schemes, where fair value is required to be determined at each reporting date, a consistent fair value methodology is applied. The fair value of the awards at each reporting date will impact the expense recognised over each reporting period.

Note 34 includes details of the Group's share awards. Refer to note 34.3 for the carrying amount of liabilities arising from cash-settled arrangements.

3.5 Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Refer to the disclosure on contingent tax liabilities in Note 46.

Significant judgement has also been exercised in determining the likelihood of liability crystallising in respect of disputes with the tax authority. Management make their judgements based on the expected outflows to be made by the Group.

3.6 Retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are also affected by the closing foreign currency exchange rates.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Exposure to actuarial risks

The defined benefit funds expose the Group to the risk that the benefits promised in the various funds cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank (or its subsidiaries).

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Inflation/pension increase risk

Benefits in these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' promised benefits. However, the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

Measurement risk

The IAS 19 Employee Benefits (IAS 19) liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk-free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework in Kenya. To the extent that governments can change that regulatory framework, the Group is exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 27 for the specific assumptions used and carrying amounts of retirement benefits.

Summary of accounting policies

for the year ended 31 December 2021

3. Judgements and estimates (continued)

3.7 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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 groups of assets. When 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, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. This reduction is the impairment loss. An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised in OCI up to the amount of any previous revaluation.

3.8 Impairment losses on loans and advances

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Refer to:

- Note 2.14 and Note 39: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 40: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Notes to the annual financial statements

for the year ended 31 December 2021

		Group		Bank	
4.	**Interest and similar income**	**2021 Shs'million**	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
	Financial assets held at fair value through OCI	**8 297**	8 971	**8 247**	8 925
	Loans and advances to banks and group companies	**646**	166	**646**	166
	Loans and advances to customers	**23 095**	22 303	**23 095**	22 303
	Total interest and similar income	**32 038**	31 440	**31 988**	31 394
5.	**Interest expense and similar charges**				
	Deposits from banks and group companies	**(411)**	(1 595)	**(411)**	(1 595)
	Customer accounts	**(5 998)**	(5 984)	**(6 095)**	(6 038)
	Subordinated debt	**(242)**	(298)	**(242)**	(298)
	Interest expense on lease liabilities	**(130)**	(182)	**(130)**	(182)
	Total interest and similar expense	**(6 781)**	(8 059)	**(6 878)**	(8 113)

Notes to the annual financial statements

for the year ended 31 December 2021

6. Net fee and commission income	2021 Corporate Banking	2021 Consumer Banking	2021 Total	2020 Corporate Banking	2020 Consumer Banking	2020 Total
Group	**Shs'million**	**Shs'million**	**Shs'million**	Shs'million	Shs'million	Shs'million
Fee and commission income						
Service fees	**716**	**3 492**	**4 208**	486	3,776	4 262
Credit related fee and commissions	**829**	**903**	**1 732**	507	751	1 258
Insurance agency commissions	**-**	**1 061**	**1 061**	7	707	714
Fee and commission income	**1 545**	**5 456**	**7 001**	1 000	5 234	6 234
Fee and commission expense						
Fee and commission expense	**(99)**	**(745)**	**(844)**	(81)	(635)	(716)
Net fee and commission income	**1 446**	**4 711**	**6 157**	919	4 599	5 518
Bank	**Shs'million**	**Shs'million**	**Shs'million**	Shs'million	Shs'million	Shs'million
Service fees	**585**	**3 492**	**4 077**	438	3 549	3 987
Credit related fee and commissions	**829**	**903**	**1 732**	507	751	1 258
Fee and commission income	**1 414**	**4 395**	**5 809**	945	4 300	5 245
Fee and commission expense						
Fee and commission expense	**(98)**	**(615)**	**(713)**	(81)	(491)	(572)
Net fee and commission income	**1 316**	**3 780**	**5 096**	864	3 809	4 673

7. Net trading income	Group and Bank 2021 Shs'million	Group and Bank 2020 Shs'million
Debt securities	**622**	681
Foreign exchange	**4 162**	4 448
Net trading income	**4 784**	5 129

Debt securities income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense.

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the income statement.

8. Other operating income	Group 2021 Shs'million	Group 2020 Shs'million	Bank 2021 Shs'million	Bank 2020 Shs'million
Rental income	40	16	40	16
Sundry income	62	37	78	47
Total other operating income	**102**	**53**	**118**	**63**

The sundry income relates to income not earned in the normal course of business.

Notes to the annual financial statements

for the year ended 31 December 2021

9. Impairment losses on financial instruments

Group	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	**(905)**	**332**	**(3 514)**	**(4 087)**
2021		**Collectively assessed**		
Loans and advances to customers	**(872)**	**768**	**(3 880)**	**(3 984)**
Recoveries of loans and advances	**-**	**-**	**509**	**509**
Total impairment loss	**(872)**	**768**	**(3 371)**	**(3 475)**
		Individually assessed		
Loans and advances to banks	**(12)**	**-**	**-**	**(12)**
Cash and balances with Central Bank of Kenya	**1**	**-**	**-**	**1**
Loans and advances to customers	**(110)**	**(422)**	**(146)**	**(678)**
Debt instruments measured at FVOCI	**16**	**-**	**-**	**16**
Financial guarantees & letters of credit	**(58)**	**(2)**	**-**	**(60)**
Other assets	**(1)**	**-**	**-**	**(1)**
Other undrawn commitments	**131**	**(12)**	**-**	**119**
	(33)	**(436)**	**(146)**	**(615)**
Recoveries of loans and advances	**-**	**-**	**3**	**3**
Total impairment loss	**(33)**	**(436)**	**(143)**	**(612)**
2020				
Total impairment loss	(393)	(894)	(7 298)	(8 585)
		Collectively assessed		
Loans and advances to customers	(192)	(579)	(5 654)	(6 425)
Recoveries of loans and advances	-	-	445	445
	(192)	(579)	(5 209)	(5 980)
		Individually assessed		
Loans and advances to banks	(1)	-	-	(1)
Loans and advances to customers	(116)	(365)	(2 101)	(2 582)
Debt instruments measured at FVOCI	(50)	-	-	(50)
Financial guarantees and letters of credit	(30)	(32)	1	(61)
Other undrawn commitments	(4)	82	-	78
	(201)	(315)	(2 100)	(2 616)
Recoveries of loans and advances	-	-	11	11
Total impairment loss	(201)	(315)	(2 089)	(2 605)

Notes to the annual financial statements

for the year ended 31 December 2021

9. Impairment losses on financial instruments (continued)

Bank	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	**(904)**	**332**	**(3 514)**	**(4 086)**
2021		**Collectively assessed**		
Loans and advances to customers	**(872)**	**768**	**(3 880)**	**(3 984)**
Recoveries of loans and advances	**-**	**-**	**509**	**509**
Total impairment loss	**(872)**	**768**	**(3 371)**	**(3 475)**
		Individually assessed		
Loans and advances to banks	**(12)**	**-**	**-**	**(12)**
Cash and balances with Central Bank of Kenya	**1**	**-**	**-**	**1**
Loans and advances to customers	**(110)**	**(422)**	**(146)**	**(678)**
Debt instruments measured at FVOCI	**16**	**-**	**-**	**16**
Financial guarantees and letters of credit	**(58)**	**(2)**	**-**	**(60)**
Other undrawn commitments	**131**	**(12)**	**-**	**119**
	(32)	**(436)**	**(146)**	**(614)**
Recoveries of loans and advances	**-**	**-**	**3**	**3**
Total impairment loss	**(32)**	**(436)**	**(143)**	**(611)**
2020				
Total impairment loss	(393)	(894)	(7 298)	(8 585)
		Collectively assessed		
Loans and advances to customers	(192)	(579)	(5 654)	(6 425)
Recoveries of loans and advances	-	-	445	445
Total impairment loss	(192)	(579)	(5 209)	(5 980)
		Individually assessed		
Loans and advances to banks	(1)	-	-	(1)
Loans and advances to customers	(116)	(365)	(2 101)	(2 582)
Debt instruments measured at FVOCI	(50)	-	-	(50)
Financial guarantees & letters of credit	(30)	(32)	1	(61)
Other undrawn commitments	(4)	82	-	78
	(201)	(315)	(2 100)	(2 616)
Recoveries of loans and advances	-	-	11	11
Total impairment loss	(201)	(315)	(2 089)	(2 605)

Notes to the annual financial statements

for the year ended 31 December 2021

10. Employee benefits	Group 2021 Shs'million	Group 2020 Shs'million	Bank 2021 Shs'million	Bank 2020 Shs'million
Salaries and allowances	**(7 783)**	(9 466)	**(7 600)**	(9 303)
Share-based payments (Note 10.1)	**(96)**	(75)	**(96)**	(75)
Training costs	**(52)**	(50)	**(51)**	(49)
Staff medical costs	**(472)**	(548)	**(471)**	(542)
Post-employment benefits:				
Defined contribution benefits scheme	**(655)**	(744)	**(642)**	(730)
Defined benefit plan	**(12)**	(23)	**(12)**	(23)
Social security cost	**(5)**	(6)	**(5)**	(6)
Other	**(518)**	(400)	**(420)**	(267)
Total employee benefits	**(9 593)**	(11 312)	**(9 297)**	(10 995)
Other includes temporary staff salaries and fringe benefit tax				
Average number of employees during the year	**1 979**	1 991	**1 979**	1 991
Average number of direct sales during the year	**621**	526	**621**	526

10.1 Deferred cash and share-based payments	Group and Bank 2021 Shs'million	Group and Bank 2020 Shs'million
The statement of comprehensive income charge for share-based payments comprises the following:		
Equity-settled arrangements	**(58)**	(60)
Cash-settled arrangements:		
Deferred cash		
Absa Group Limited Cash Value Plan ("CVP")	**(38)**	(15)
Total deferred cash and share-based payments	**(96)**	(75)

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

11. Infrastructure costs	Group 2021 Shs'million	Group 2020 Shs'million	Bank 2021 Shs'million	Bank 2020 Shs'million
Property cost	**(697)**	(1 234)	**(694)**	(1 198)
Other infrastructure costs	**(95)**	(127)	**(95)**	(127)
	(792)	(1 361)	**(789)**	(1 325)

Notes to the annual financial statements

for the year ended 31 December 2021

		Group		Bank	
12.	**Administrative and general expenses**	**2021 Shs'million**	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
	Auditors' remuneration:				
	Local statutory audit	**(25)**	(23)	**(25)**	(23)
	Information systems technology audit	**(9)**	(9)	**(9)**	(9)
		(34)	(32)	**(34)**	(32)
	Consultancy, legal and professional fees	**(179)**	(268)	**(173)**	(266)
	Subscription, publications, stationery and communications	**(683)**	(664)	**(659)**	(662)
	Marketing, advertising and sponsorship	**(352)**	(1 058)	**(344)**	(1 058)
	Travel and accommodation	**(85)**	(73)	**(84)**	(70)
		(1 299)	(2 063)	**(1 260)**	(2 056)
	Other administrative and general expenses	**(4 045)**	(3 735)	**(4 027)**	(3 717)
	Total administrative and general expenses	**(5 378)**	(5 830)	**(5 321)**	(5 805)

Other administrative and general expenses mainly consists of group recharges, security costs, cash in transit expenses, insurance costs and motor vehicle expenses.

		Group		Bank	
13.	**Income taxes**	**2021 Shs'million**	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
13.1	**Income tax recognised in profit or loss**				
	Current income tax	**(5 733)**	(1 925)	**(5 473)**	(1 765)
	Current income tax - prior year adjustments	**(70)**	15	**(74)**	7
		(5 803)	(1 910)	**(5 547)**	(1 758)
	Deferred income tax (Note 28)				
	Current year credit	**1 035**	426	**1 031**	403
	Deferred income tax – prior year adjustments	**89**	-	**88**	-
	Total income tax expense for the year	**(4 679)**	(1 484)	**(4 428)**	(1 355)
	The effective tax rate for the year ended 31 December 2021 is 30.1% (2020: 26.6%)				
	Profit for the year	**15 549**	5 647	**14 726**	5 100
	Income tax expense calculated at 30% (2020: 25%)	**4 665**	1 412	**4 418**	1 275
	Effect of income that is exempt from taxation	**(216)**	(166)	**(216)**	(166)
	Effect of expenses that are not deductible in determining taxable profit	**230**	238	**226**	246
	Income tax expense recognised in profit or loss	**4 679**	1 484	**4 428**	1 355

Deferred income tax on fair value gains or losses on fair value through other comprehensive income (FVOCI) financial assets has been recorded in other comprehensive income.

Notes to the annual financial statements

for the year ended 31 December 2021

14. Earnings per share	Group 2021 Shs'million	Group 2020 Shs'million	Bank 2021 Shs'million	Bank 2020 Shs'million
Net profit attributable to shareholders	**10 870**	4 163	**10 298**	3 745
Number of ordinary shares in issue	**5 432**	5 432	**5 432**	5 432
Basic earnings per share	**2.00**	0.77	**1.90**	0.69

There were no potentially dilutive shares outstanding as at 31 December 2021 or 2020. Diluted earnings per share are therefore the same as basic earnings per share.

15. Cash and balances at central banks	Group and Bank 2021 Shs'million	Group and Bank 2020 Shs'million
Cash in hand	**7 730**	5 829
Balances with Central Bank of Kenya (CBK)	**13 283**	12 435
Impairment charge	**(4)**	(4)
	21 009	18 260

In accordance with Section 38 of the Central Bank of Kenya Act, the Bank is required to maintain minimum cash balances on deposit as reserves against its deposits and other liabilities.
In 2021, the Cash Reserve Ratio (CRR) was set at 4.25 percent of the total of the bank's domestic and foreign currency deposit liabilities. The CRR is maintained based on a daily average level from the fifteenth of the previous month to the fourteenth of the current month and not to fall below a CRR of 3 percent on any day.
Cash in hand and balances with Central Bank of Kenya are non-interest bearing.

16. Financial assets at fair value through profit or loss	Group and Bank 2021 Shs'million	Group and Bank 2020 Shs'million
Debt securities : Government treasury bills and bonds	**44 196**	36 375

All financial assets at fair value through profit or loss are current.

17. Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps and forward rate agreements.
At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue. The Bank only trades the following derivative instrument:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, options and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.
The Bank trades foreign exchange forwards and swaps (forward contracts). These are binding contracts locking in the exchange rate for the purchase or sale of a currency on a future date. The Bank's forward book is marked to market on a daily basis.

Notes to the annual financial statements

for the year ended 31 December 2021

17.1 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Bank trades in. The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Group and Bank		
	Notional Contract Amount Shs'million	**Carrying value assets Shs'million**	**Carrying value liabilities Shs'million**
2021			
Foreign exchange derivatives			
Forward foreign exchange	**(21 322)**	**204**	**(117)**
Currency swap	**(61 041)**	**722**	**(1 035)**
Options	**(8 091)**	**194**	**(192)**
Total derivatives	**(90 454)**	**1 120**	**(1 344)**
2020			
Foreign exchange derivatives			
Forward foreign exchange	(22 658)	436	(243)
Currency swap	(60 948)	1 989	(674)
Options	(9 774)	254	(254)
Total derivatives	(93 380)	2 679	(1 171)

18. Financial assets at fair value through other comprehensive income

	Group		Bank	
	2021 Shs'million	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
Debt: Government treasury bills and bonds				
Maturing within 90 days	**5 964**	13 305	**5 964**	13 305
Maturing after 90 days	**82 517**	76 494	**82 109**	75 975
Allowance for ECL	**(101)**	(117)	**(101)**	(116)
	88 380	89 682	**87 972**	89 164

Treasury bills are debt securities issued by the Government of Kenya and are classified as fair value through other comprehensive income. The weighted average effective interest rate on the Government securities at 31 December 2021 was 10.1% (2020 10.2%).

Included as part of FVOCI is Shs 1 250 million pledged as security for the Intra-Day Liquidity Facility (ILF). Refer to Note 46.2.

Group

In 2021, a fair value loss of Shs 688 million (Gross: Shs 983 million loss less deferred income tax of Shs 295 million) has been recognised in other comprehensive income.

In 2020, a fair value gain of Shs 801 million (Gross: Shs 1 144 million gain less deferred income tax of Shs 343 million) has been recognised in other comprehensive income.

Bank

In 2021, a fair value loss of Shs 675 million (Gross: Shs 964 million loss less deferred income tax of Shs 289 million) has been recognised in other comprehensive income.

In 2020, a fair value gain of Shs 795 million (Gross: Shs 1 136 million loss less deferred income tax of Shs 341 million) has been recognised in other comprehensive income.

Notes to the annual financial statements

for the year ended 31 December 2021

19. Loans and advances to banks	Group and Bank 2021 Shs'million	2020 Shs'million
Loans and advances to banks	**3 019**	5 648
Allowance for ECL	**(12)**	-
	3 007	5 648

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2021 was 4.6% (2020: 3.6%). Loans and advances to banks are current.

20. Loans and advances to customers	Group and Bank 2021 Shs'million	2020 Shs'million
Commercial loans	**188 261**	170 546
Bills discounted	**39 591**	27 578
Post acceptance letters of credit	**6 549**	3 301
Instalment credit agreements	**11 754**	11 307
Overdrafts	**5 582**	12 562
Gross loans and advances to customers	**251 737**	225 294
Impairment losses raised during the reporting period		
Stage 1 expected credit losses	**(3 387)**	(2 418)
Stage 2 expected credit losses	**(3 437)**	(3 819)
Stage 3 expected credit losses	**(13 551)**	(13 201)
Amounts written off during the year as uncollectible	**2 872**	2 999
Impairment losses	**(17 503)**	(16 439)
Net loans and advances to customers	**234 234**	208 855

	Group		Bank	
21. Other assets and prepaid expenses	2021 Shs'million	2020 Shs'million	2021 Shs'million	2020 Shs'million
Prepaid expenses	**525**	448	**525**	448
Items in course of collection from banks	**929**	959	**929**	959
Staff loan marked to market	**497**	486	**497**	486
Electronic banking	**5,514**	2 943	**5,514**	2 943
Other	**2,587**	2 873	**2,373**	2 818
Gross other assets and prepaid expenses	**10 052**	7 709	**9 838**	7 654
Impairment losses	**(2)**	-	**-**	-
Net other assets and prepaid expenses	**10 050**	7 709	**9 838**	7 654

Other assets mainly consist of suspense accounts. All other assets are current.

Notes to the annual financial statements

for the year ended 31 December 2021

22. Investment in subsidiaries

Name of subsidiary	Proportion of ownership interest and voting power held 2021	2020	Carrying amount Shs'million 2021	Shs'million 2020
Absa Securities Limited	**100%**	100%	**363**	363
Absa Kenya Nominees Limited	**100%**	100%	**-**	-
Absa Asset Management Limited	**100%**	100%	**95**	60
Absa Bancassurance Intermediary Limited (formerly Absa Bank Insurance Agency Limited)	**100%**	100%	**5**	5
Absa Pension Services Limited	**100%**	100%	**-**	-
			463	428

Absa Kenya Nominees Limited and Absa Pension Services Limited are dormant companies. Absa Securities Limited, Absa Asset Management Limited and Absa Bancassurance Intermediary Limited (formerly Absa Bank Insurance Agency Limited) operate in the business of brokerage services, wealth management and insurance agency respectively.

The subsidiaries, all of which are unlisted, are incorporated in Kenya and have the same year end as the Bank.

23. Non-current assets held for sale

As at 31 December 2021, the Group continued to recognise in its financial statements items of property and equipment from its closed branches (Maragua and Mombasa Road). A sale of the items had not been completed for all the items at the balance sheet date but the Bank expects a sale to be completed in the following year, 2022.

	Group and Bank 2021 Shs'million	2020 Shs'million
Property and equipment	**47**	47
Disposal	**-**	-
	47	47

The carrying value is based on the net book value of the assets at the point of recognition as held for sale. There is no impairment or reversal recorded against the non-current assets held for sale. As at 31 December 2021, the properties had a fair value of Shs 178 million (2020: Shs 178 million).

Notes to the annual financial statements

for the year ended 31 December 2021

Group and Bank	Freehold buildings Shs'million	Right of use assets Shs'million	Leasehold improvements Shs'million	Fixtures fittings and equipment Shs'million	Motor vehicles Shs'million	Work in progress Shs'million	Total Shs'million
24. Property and equipment							
Cost or valuation – 2021							
Balance at beginning of the year	**135**	**1 964**	**2 966**	**8 880**	**19**	**4**	**13 968**
Additions	**-**	**-**	**-**	**232**	**-**	**188**	**420**
Adjustments	**-**	**(93)**	**-**	**-**	**-**	**-**	**(93)**
Derecognition	**-**	**-**	**(149)**	**(4 356)**	**-**	**-**	**(4 505)**
Reclassification from intangible assets	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Balance at end of the year	**135**	**1 871**	**2 817**	**4 756**	**19**	**194**	**9 792**
Accumulated depreciation - 2021							
Balance at beginning of the year	**(84)**	**(822)**	**(2 224)**	**(8 011)**	**(18)**	**-**	**(11 159)**
Depreciation	**(2)**	**(339)**	**(109)**	**(319)**	**-**	**-**	**(769)**
Derecognition	**-**	**-**	**149**	**4 356**	**-**	**-**	**4 505**
Balance at end of the year	**(86)**	**(1 161)**	**(2 184)**	**(3 974)**	**(18)**	**-**	**(7 423)**
Net book value at end of year	**49**	**710**	**633**	**782**	**1**	**194**	**2 369**
Cost or valuation – 2020							
Balance at beginning of the year	134	1 493	3 594	8 417	21	-	13 659
Additions	-	-	9	542	-	4	555
Adjustments	-	471	-	-	-	-	471
Derecognition	-	-	(636)	(79)	(2)	-	(717)
Reclassification from prepaid lease	1	-	(1)	-	-	-	-
Balance at end of the year	135	1 964	2 966	8 880	19	4	13 968
Accumulated depreciation - 2020							
Balance at beginning of the year	(83)	(408)	(2 711)	(7 594)	(20)	-	(10 816)
Depreciation	(1)	(414)	(148)	(459)	-	-	(1 022)
Derecognition	-	-	635	42	2	-	679
Balance at end of the year	(84)	(822)	(2 224)	(8 011)	(18)	-	(11 159)
Net book value at end of year	51	1142	742	869	1	4	2809

Right-of-use asset relates to the Group's leased premises i.e. branches and ATM space.
Included in property and equipment at 31 December 2021 are assets with a gross value of Shs 4 790 million (2020: Shs 8 159 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 895 million (2020: Shs 1 632 million).
The Group has not pledged any item of property and equipment as security as at December 2021 (December 2020: Nil)

Notes to the annual financial statements

for the year ended 31 December 2021

25. Intangible assets	Computer software Shs'million	WIP Shs'million	Total Shs'million
Group			
Cost - 2021			
At start of year	**5 422**	**75**	**5 497**
Acquisitions	**131**	**70**	**201**
Transfer from WIP	**73**	**(73)**	**-**
Transfers to property and equipment	**-**	**(2)**	**(2)**
Balance at end of the year	**5 626**	**70**	**5 696**
Amortisation and impairment losses - 2021			
At start of year	**(5 083)**	**-**	**(5 083)**
Amortisation	**(132)**	**-**	**(132)**
Balance at end of the year	**(5 215)**	**-**	**(5 215)**
Net book value at end of year	**411**	**70**	**481**
Cost - 2020			
At start of year	5 757	110	5 867
Acquisitions	8	112	120
Transfer from WIP	147	(147)	-
Write off	(490)	-	(490)
Balance at end of the year	5 422	75	5 497
Amortisation and impairment losses - 2020			
At start of year	(5 249)	-	(5 249)
Amortisation	(324)	-	(324)
Write off	490	-	490
Balance at end of the year	(5 083)	-	(5 083)
Net book value at end of year	339	75	414

Included in intangible assets at 31 December 2021 are assets with a gross value of Shs 4 872 million (2020: Shs 4 776 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 665 million (2020: Shs 646 million).

The Group has not pledged any item of intangible assets as security as at December 2021 (December 2020: Nil).

Notes to the annual financial statements

for the year ended 31 December 2021

25.	**Intangible assets (continued)**	**Computer software Shs'million**	**WIP Shs'million**	**Total Shs'million**
	Bank			
	Cost - 2021			
	At start of year	**5 340**	**75**	**5 415**
	Acquisitions	**131**	**66**	**197**
	Transfer from WIP	**73**	**(73)**	**-**
	Transfers to property and equipment	**-**	**(2)**	**(2)**
	Balance at end of the year	**5 544**	**66**	**5 610**
	Amortisation and impairment losses - 2021			
	At start of year	**(5 072)**	**-**	**(5 072)**
	Amortisation	**(120)**	**-**	**(120)**
	Balance at end of the year	**(5 192)**	**-**	**(5 192)**
	Net book value at end of year	**352**	**66**	**418**
	Cost - 2020			
	At start of year	5 677	110	5 787
	Acquisitions	6	112	118
	Transfer from WIP	147	(147)	-
	Write off	(490)	-	(490)
	Balance at end of the year	5 340	75	5 415
	Amortisation and impairment losses – 2020			
	At start of year	(5 248)	-	(5 248)
	Amortisation	(314)	-	(314)
	Write off	490	-	490
	Balance at end of the year	(5 072)	-	(5 072)
	Net book value at end of year	268	75	343

Included in intangible assets at 31 December 2021 are assets with a gross value of Shs 4 776 million (2019: Shs 4 776 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 646 million (2019: Shs 646 million).

The Bank has not pledged any item of intangible assets as security as at December 2021 (December 2020: Nil).

26. Leasehold land

Leasehold land is carried at cost less amortisation over the period of the lease.

	Group and Bank	
	2021 Shs'million	2020 Shs'million
At start of year	**34**	35
Amortisation charge for the year	**(1)**	(1)
At end of year	**33**	34

Prepaid operating leases relate to land purchased on 99 year lease.

Notes to the annual financial statements

for the year ended 31 December 2021

27. Retirement benefit (liability)/asset

The Absa Bank Kenya PLC Staff Pension Fund ("the Fund") is a defined benefit pension fund. Prior to 1 January 2010 the Fund consisted of both a Defined Benefit ("DB") and a Defined Contribution ("DC") component. On 1 January 2010, the Fund was split into two separate legal entities, with the liabilities of the DB section remaining in the Fund, and the DC liabilities being transferred to the Absa Bank Kenya PLC Staff Retirement Benefits (Defined Contribution) Scheme 2009 ("the DC Fund").

The operation of the Fund is regulated by the Retirement Benefits Authority ("RBA") and subject to the provisions of the Retirement Benefits Act, 1997. The Fund is governed by the Trust Deed and Rules set out in the Fourteenth Deed of Amendment dated 12 February 2010 ("Rules").

Membership data

The membership data used for the valuation is summarised in the table below:

Category	2021 Number	2021 Annual Salary / Pension Shs'million	2020 Number	2020 Annual Salary / Pension Shs'million
Defined benefit				
Active members	2	11	3	16
Deferred pensioners	797	69	812	71
Pensioners	1 436	466	1 469	520

Summary of benefit and contribution structure

Eligibility	Existing Members who opt to remain Members of the Fund on the terms applying to DB Members.
Final Pensionable Salary	(i) If the Member has been in service for 20 years or more, the annual pensionable salary at the date of leaving. (ii) If the Member has been in service for less than 20 years, the average annual salary paid to the member during the last five years of service.
Normal Retirement Age	Males 60 Females 55 (60 for some females)
Service	Continuous service with Bank or with Barclays Bank DCO or Barclays Bank International Limited, immediately prior to the establishment of Barclays Bank of Kenya Limited. For those employees who joined the Fund aged 17 or less, service will count from the member's 17th birthday.
Normal Retirement and Late Retirement Pension	If service is 20 years or more then 1/720 of Final Pensionable Salary for each month of service to 31 December 2009. Thereafter, benefits accrue at a rate of 1/960 per month. If service is lower than 20 years 1/960 of Final Pensionable Salary for each month of service. This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.
Ill-health retirement*	Pension based on potential service to Normal Retirement Age and Final Pensionable Salary at the date of ill-health retirement. This pension will be paid only if service is 5 years or more.

Notes to the annual financial statements

for the year ended 31 December 2021

27. Retirement benefit plans (continued)

Retirement due to unsatisfactory service	Deferred pension payable from the later of the date the Member attains age 50 or retires from Service.
Commutation	Up to ¼ of pension (calculated on the advice of the Actuary).
Death in service	Lump sum equal to three year's annual pensionable salary, if the member has been in service for more than five years, otherwise ¼ of the member's rate of Pensionable Salary at the date of death.
Death in deferment	Lump sum equal to five times deferred pension amount.
Death after retirement	Lump sum equal to the remaining pension payable within 5 years of retirement age.
Withdrawal	Deferred Pension payable at Normal Retirement Age calculated as follows:

Service	Fraction of Pensionable Salary for each month of service to 31 December 2009
Less than 20 years	**1/960**
20 to 30 years	**1/840**
30 years and over	**1/720**

Benefits accrue at a rate of 1/960 per month for service post 1

January 2010.

In no case shall a deferred pension exceed the amount which could have been paid to the Member if he or she had stayed in service until Normal Retirement Age.

This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.

A cash lump sum** equal to 1/3 of the deferred pension may be taken prior to normal retirement age, with a reduced pension being payable from normal retirement age.

Pension Increases	The Scheme Trustees may, with the consent of the Principal Employer, review pensions in payment and subject to there being sufficient funds for the purpose or the Employers paying a special additional contribution as determined by the Actuary, may increase such pensions.
Contributions	Members are not required to contribute to the Fund, although they can elect to pay voluntary contributions. The Bank contributes to the Fund, the balance of the cost of providing the benefits.
Government Pensions	If a member has completed 40 years' service a deduction is made equal to ½ of any government pension payable to a single person (for members with less than 40 years' service a percentage of this pension is deducted). In addition, a deduction equal to the pension equivalent of any sum paid by the Bank to a DB member under any statutory enactment, order, directive, or under any agreement with a trade union or similar body.

Notes to the annual financial statements

for the year ended 31 December 2021

27. Retirement benefit plans (continued)

27.1 Defined benefit plan

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at	
	2021	2020
Discount rate	**13.10%**	12.90%
Expected rate of salary increase	**9.00%**	9.00%
Inflation	**7.00%**	7.00%
Mortality rate	**PA (90)**	PA (90)
Change in pensions	**4.00%**	4.00%
	Shs'million	Shs'million
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	**23**	23
Net interest income on defined benefit plan	**(11)**	(2)
	12	21

	2021 Shs'million	2020 Shs'million
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial gain - financial assumptions	**43**	24
Actuarial gain - experience adjustment	**277**	161
Return on plan assets	**(976)**	393
Adjustments for restrictions on the defined benefit asset	**232**	(519)
	(424)	59

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2021 Shs'million	2020 Shs'million
Present value of funded defined benefit obligation	**(3 918)**	(4 231)
Fair value of plan assets	**4 342**	5 206
Funded surplus	**424**	975
Asset restriction	**(424)**	(903)
Additional liability in respect of the minimum funding requirement	**(363)**	-
Net (liability)/asset arising from defined benefit obligation	**(363)**	72

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2021 Shs'million	2020 Shs'million
Opening defined benefit obligation	**(4 231)**	**(4 412)**
Current service cost	**(23)**	**(23)**
Interest expense	**(507)**	**(526)**
Actuarial gains - experience	**277**	**161**
Actuarial gains - financial assumption	**43**	**24**
Benefits paid	**523**	**545**
Closing defined benefit obligation	**(3 918)**	**(4 231)**

Notes to the annual financial statements

for the year ended 31 December 2021

		Group and Bank	
		2021 Shs'million	2020 Shs'million
27.	**Retirement benefit plans (continued)**		
27.1	**Defined benefit plan (continued)**		
	Movements in the present value of the plan assets in the current year were as follows:		
	Opening fair value of plan assets	**5 206**	4 755
	Benefits paid	**(523)**	(545)
	Contributions from the employer	**1**	32
	Interest income	**634**	571
	Actuarial (loss)/gain OCI	**(976)**	393
	Closing fair value of plan assets	**4 342**	5 206
	Movements in asset restriction in the current year were as follows:		
	Opening value	**(903)**	(341)
	Net interest cost	**(116)**	(44)
	(Increase)/decrease in asset restriction	**232**	(518)
	Closing value	**(787)**	(903)

Cash-flows

The cash-flows in the current and expected in the next valuation period are shown below:

	2022 Shs'million Next valuation (expected)	2021 Shs'million Current valuation (estimated)
Company contributions – normal	**2**	2
Company contributions - expenses	**42**	31
Company contributions – deficit funding	**242**	-
Pension payments	**557**	583
Other benefit payments	**440**	-
Expense payments	**21**	18

	Fair value of plan assets			
Nature of the pension fund assets 2021	**Debt instruments Shs' million**	**Equity instruments Shs' million**	**Other instruments Shs' million**	**Total Shs'million**
Quoted fair value	**1 192**	**620**	**256**	**2 068**
Cash and cash equivalents	**-**	**-**	**132**	**132**
Investments in real estate	**-**	**-**	**2 142**	**2 142**
	1 192	**620**	**2 530**	**4 342**
2020				
Quoted fair value	1 802	460	652	2 914
Unquoted fair value	-	3	-	3
Cash and cash equivalents	-	-	9	9
Investments in real estate	-	-	2 280	2 280
	1 802	463	2 941	5 206

Notes to the annual financial statements

for the year ended 31 December 2021

27. Retirement benefit asset (continued)

27.1 Defined benefit plan (continued)

Sensitivity analysis (continued)

The effect of certain changes to the financial and demographic assumptions is analysed below:

2021	Base Shs'million	Discount rate -1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation +0.50% Shs'million	PA(90) - 1 year Shs'million
Active members	**46**	**51**	**44**	**49**	**47**
Deferred members	**497**	**535**	**480**	**518**	**507**
Pensions in payment	**3 375**	**3 559**	**3 290**	**3 480**	**3 472**
Total liability	**3 918**	**4 145**	**3 814**	**4 047**	**4 026**
Gross service cost (excluding interest)	**23**	**23**	**23**	**23**	**23**

2020	Base Shs'million	Discount rate -1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation 0.50% Shs'million	PA(90) - 1 year Shs'million
Active members	60	67	57	64	62
Deferred members	511	552	492	533	520
Pensions in payment	3 660	3 865	3 565	3 777	3 764
Total liability	4 231	4 484	4 114	4 374	4 346
	24	24	24	24	24
Gross service cost (excluding interest)	60	67	57	64	62

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The weighted average duration of the defined benefit obligation is 50 years. The figure is not very sensitive to the precise time horizon given the high net discount rate.

28. Deferred income tax

Deferred tax balances

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	Group		Bank	
	2021 Shs'million	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
Deferred tax assets	**4 985**	4 148	**4 921**	4 092
Deferred tax liabilities	**(247)**	(960)	**(244)**	(951)
Net deferred tax asset at the end of the year	**4 738**	3 188	**4 677**	3 141

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.
The deferred income tax assets and liabilities positions shown above relate to the bank and its subsidiaries and amalgamate assets and liabilities, and thus are not specific to any particular entity. There is a net liability position relating to one of the entities that is not material.

Notes to the annual financial statements

for the year ended 31 December 2021

28. Deferred income tax (continued)

Deferred tax balances (continued)

Consolidated deferred income tax assets and liabilities are attributable to the following:

Group	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Balance at 31 December Shs'million
2021				
Property and equipment	**404**	**7**	**-**	**411**
Financial assets at FVOCI	**(464)**	**-**	**295**	**(169)**
Unrealised gains and losses	**(67)**	**(11)**	**-**	**(78)**
Impairment losses on financial instruments	**2 770**	**387**	**-**	**3 157**
Tax losses	**54**	**7**	**-**	**61**
Derivatives	**(429)**	**496**	**-**	**67**
Share based payment transactions	**113**	**29**	**-**	**142**
Provisions	**590**	**227**	**-**	**817**
Re-measurement of defined benefit liability/(asset)	**136**	**-**	**127**	**263**
Right of use assets	**81**	**(14)**	**-**	**67**
	3 188	**1 128**	**422**	**4 738**
2020				
Property and equipment	284	120	-	404
Financial assets at FVOCI	(121)	-	(343)	(464)
Unrealised gains and losses	(56)	(11)	-	(67)
Impairment losses on financial instruments	2 026	744	-	2 770
Tax losses	31	23	-	54
Derivatives	234	(663)	-	(429)
Share based payment transactions	90	23	-	113
Provisions	395	195	-	590
Re-measurement of defined benefit liability/(asset)	154	-	(18)	136
Right of use assets	86	(5)	-	81
	3 123	426	(361)	3 188

Notes to the annual financial statements

for the year ended 31 December 2021

28. Deferred tax (continued)

Deferred tax balances (continued)

Bank	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Balance at 31 December Shs'million
2021				
Property and equipment	**402**	**6**	**-**	**408**
Financial assets at FVOCI	**(459)**	**-**	**289**	**(170)**
Unrealised gains and losses	**(63)**	**(11)**	**-**	**(74)**
Impairment losses on financial instruments	**2 770**	**387**	**-**	**3 157**
Derivatives	**(429)**	**496**	**-**	**67**
Share based payment transactions	**113**	**29**	**-**	**142**
Provisions	**590**	**227**	**-**	**817**
Re-measurement of defined benefit liability/ (asset)	**136**	**-**	**127**	**263**
Right of use assets	**81**	**(14)**	**-**	**67**
	3 141	**1 120**	**416**	**4 677**
2020				
Property and equipment	282	120	-	402
Financial assets at FVOCI	(118)	-	(341)	(459)
Unrealised gains and losses	(52)	(11)	-	(63)
Impairment losses on financial instruments	2 026	744	-	2 770
Derivatives	234	(663)	-	(429)
Share based payment transactions	90	23	-	113
Provisions	395	195	-	590
Re-measurement of defined benefit liability/ (asset)	154		(18)	136
Right of use assets	86	(5)	-	81
	3 097	403	(359)	3 141

	Group		Bank	
	2021 Shs'million	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
29. Other liabilities and accrued expenses				
Accrued expenses	**623**	709	**623**	709
Items in the course of collection due to other banks	**1 544**	1 823	**1 544**	1 823
Outstanding bankers' cheques	**109**	108	**109**	108
Trade finance margins	**798**	708	**798**	708
Card settlements	**665**	502	**665**	502
Impairment losses on off-balance sheet financial instruments	**604**	229	**604**	229
Other payables	**8 275**	7 006	**8 165**	6 999
Lease liability	**941**	1 409	**941**	1 409
Post acceptance letters of credit	**5 313**	3 325	**5 313**	3 325
	18 872	15 819	**18 762**	15 812

Other payables include items relating to excise duties payable, provision for litigation, interchange payable, uncleared payments and trade payables.

Other liabilities and accrued expenses are current.

Notes to the annual financial statements

for the year ended 31 December 2021

29 Other liabilities and accrued expenses (continued)

29.1 Financial guarantees, letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

An analysis of changes in the outstanding exposures and the corresponding allowance for impairment losses in relation to guarantees and other commitments is set out below:

	Stage 1 Outstanding exposure Shs'million	Stage 2 Outstanding exposure Shs'million	Stage 3 Outstanding exposure Shs'million	Total Outstanding exposure Shs'million
Gross carrying amount at 1 January 2021	**71 650**	**26 302**	**58**	**98 010**
Transfer to Stage 1	**398**	**(398)**	**-**	**-**
Transfer to Stage 2	**(652)**	**652**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(24 452)**	**(17 238)**	**(19)**	**(41 709)**
New exposures	**33 943**	**6 737**	**5**	**40 685**
Gross carrying amount at 31 December 2021	**80 887**	**16 055**	**44**	**96 986**
Gross carrying amount at 1 January 2020	94 680	5 929	57	100 666
Transfer to Stage 1	1 851	(1 851)	-	-
Transfer to Stage 2	(5 100)	5 102	(2)	-
Transfer to Stage 3	(2)	(1)	3	-
Exposures that have been derecognised	(44 130)	(4 068)	-	(48 198)
New exposures	24 351	21 191	-	45 542
Gross carrying amount at 31 December 2020	71 650	26 302	58	98 010

	Stage 1 12 month ECL Shs'million	Stage 2 Lifetime ECL Shs'million	Stage 3 Lifetime ECL Shs'million	Total Shs'million
Loss allowance at 1 January 2021	**97**	**119**	**13**	**229**
Transfer to Stage 1	**23**	**(23)**	**-**	**-**
Transfer to Stage 2	**(7)**	**7**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(129)**	**(180)**	**(11)**	**(320)**
New exposures	**412**	**283**	**-**	**695**
Loss allowance at 31 December 2021	**396**	**206**	**2**	**604**
Loss allowance at 1 January 2020	59	79	14	152
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(12)	14	(2)	-
Transfer to Stage 3	-	-	-	-
Exposures that have been derecognised	(17)	(48)	-	(65)
New exposures	67	74	1	142
Loss allowance at 31 December 2020	97	119	13	229

Notes to the annual financial statements

for the year ended 31 December 2021

29 Other liabilities and accrued expenses (continued)

29.2 Lease liability

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Group and Bank	
	2021 Shs'million	2020 Shs'million
As at 1 January	**1 409**	1 334
Additions	**102**	128
Reclassifications and adjustments	**(192)**	359
Payments	**(504)**	(594)
Interest	**130**	182
Foreign currency translation	**(4)**	-
At 31 December	**941**	1 409

Maturity analysis of lease liabilities has been disclosed in Note 41.

30. Deposits from banks

	Group and Bank	
	2021 Shs'million	2020 Shs'million
Due to local banks	**4 301**	3 845
Due to foreign banks	**508**	231
	4 809	4 076

The weighted average effective interest rate on deposits and balances due to banking institutions at 31 December 2021 was 0.6% (2020: 3.4%).

Deposits and balances due to banking institutions are current.

31. Deposits from customers

	Group		Bank	
	2021 Shs'million	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
Call deposits	**5 672**	12 829	**5 672**	12 829
Savings and transmission accounts	**196 409**	185 892	**196 514**	185 905
Fixed deposits	**66 636**	54 909	**68 551**	56 175
Customer accounts	**268 717**	253 630	**270 737**	254 909

The weighted average effective interest rate on customer deposits at 31 December 2021 was 2.3% (2020: 2.4%).

The carrying value of customer deposits approximates their fair value.

Deposits of Shs 1 065 million (2020: Shs 1 014 million) held as collateral for loans and advances were included in deposits from customers.

32. Borrowings

	Group and Bank	
	2021 Shs'million	2020 Shs'million
Opening balance	**8 211**	7 628
Non – cash flow items:		
Foreign currency translation	**293**	566
Interest accrued in the year	**242**	298
Interest paid in the year	**(241)**	(281)
	8 505	8 211

Notes to the annual financial statements

for the year ended 31 December 2021

32 Borrowings (continued)

The US$50million subordinated loan from Absa Group Limited was obtained on 26 Feb 2020 and has a maturity date of 02 Feb 2030. Interest is paid quarterly in arrears at a rate of 270bps above USD Libor which re-sets every three months.

The US$25million subordinated loan from Absa Group Limited was obtained on 16 October 2019 and has a maturity date of 16 October 2029. Interest is paid quarterly in arrears at a rate of 270bps above USD Libor which re-sets every three months.

No collateral is held against the borrowings. The carrying value of borrowings approximates their fair value.

During the year, the effective interest on the borrowing recorded an interest expense was Shs 244 million (2020: Shs 298 million).

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2021 and 2020.

33. Share capital

The authorised share capital of Absa Bank Kenya PLC is Shs 2,716 million comprising 5,432 million ordinary shares with a par value of Shs 0.50 per share. The issued share capital comprises 5,432 million ordinary shares fully paid with a par value of Shs 0.50 each.

	Group and Bank	
	2021 Shs'million	2020 Shs'million
5 432 (2020: 5 432) shares of stated capital.	**2 716**	2 716
	2 716	2 716

34. Reserves

34.1 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets classified at fair value through other comprehensive income until the instrument is derecognised or impaired; in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

34.2 Retained earnings

This reserve includes accumulated profits over the years. The retained earnings are distributable to shareholders.

34.3 Share-based payment reserve

The Bank's senior management participate in the following Absa Group share based payment arrangement:

(a) Absa Group Limited Share Incentive Plan Performance Award (previously Long-Term Incentive Plan – LTIP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Group retains the obligation to settle in cash certain SIPP awards that are prohibited from being equity-settled. The award will be issued by Absa Group Limited. In order for the participant to be entitled to these awards, the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends may accumulate and are reinvested over the vesting period.

(b) Absa Group Limited Share Incentive Plan Retention Buyout Award (previously Joiners Share Value Plan – JSVP)

The Share Incentive Plan Retention Buyout Award (SIPRB) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends may accumulate and are reinvested over the vesting period, which will align with the vesting period of the previous employer.

(c) Absa Group Limited Share Incentive Plan Deferred Award (previously Share Value Plan – SVP)

The Share Incentive Plan Deferred Award (SIPD) (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. The Group retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends may accumulate and are reinvested over the vesting period.

Notes to the annual financial statements

for the year ended 31 December 2021

34. Reserves (continued)

34.3 Share-based payment reserve

(d) Absa Group Limited Share Incentive Plan Retention Award (previously Retention Share Value Plan – SVP Cliff)

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Options series	Number	Exercise price	Total fair value at grant date (Shs' million)
SIPP	523 582	-	187
SIPRB	7 533	-	8
SIPD	60 115	-	39
SVP Cliff	45 528	-	49

Share appreciation rights series	Number	Exercise price	Total fair value at grant date (Shs' million)
JSVP	2 169	-	1

Movements during the period

The following reconciles the share options outstanding at the beginning and end of the period:

	2021					2020				
	Opening balance	Granted/ transferred	Forfeited	Exercised	Closing balance	Opening balance	Granted/ transferred	Forfeited	Exercised	Closing balance
Equity settled:										
SIPP	437 773	95 516	(9 707)	-	523 582	346 621	215 315	(61 639)	(62 524)	437 773
SIPRB	-	7 533	-	-	7 533	-	-	-	-	-
SIPD	79 296	12 314	-	(31 495)	60 115	28 586	66 489	(1 155)	(14 624)	79 296
SVP Cliff	-	45 528	-	-	45 528	-	-	-	-	-
Cash settled										
SIPRB	5 559	-	-	(3 390)	2 169	5 493	2 342	-	(2 276)	5 559
SIPD	-	-	-	-	-	88	-	-	(88)	-

	Weighted average share price at exercise date during the reporting period (Shs)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Shs)	
	2021	2020	2021	2020	2021	2020
Equity settled:						
SIPP	-	1 078	1	2	1 018	559
SIPRB	-	-	1	-	1 067	-
SIPD	770	1 316	1	1	880	559
SVP Cliff	-	-	3	-	1 086	-
Cash settled						
SIPRB	1 007	891	1	1	-	624
SIPD	-	891	-	-	-	-

Notes to the annual financial statements

for the year ended 31 December 2021

		Group		Bank	
35.	**Cash used in operations**	**2021 Shs'million**	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
	Profit before tax for the year	**15 549**	5 647	**14 726**	5 100
	Adjustments for:				
	Interest paid	**5 353**	8 059	**5 450**	8 113
	Interest received	**(28 585)**	(31 440)	**(28 550)**	(31 394)
	Impairment loss recognised (Note 9)	**4 087**	8 585	**4 086**	8 585
	Depreciation (Note 24)	**769**	1 022	**769**	1 022
	Net foreign exchange differences	**(328)**	(493)	**(317)**	(492)
	Amortisation – intangible assets (Note 25)	**132**	324	**120**	314
	Amortisation – leasehold land (Note 26)	**1**	1	**1**	1
	Share based payments (Note 10)	**96**	75	**96**	75
	Pension asset (Note 27)	**13**	21	**13**	21
	Cash used in operations before working capital changes	**(2 913)**	(8 199)	**(3 606)**	(8 655)
	Changes in working capital				
	Increase in derivative assets	**1 559**	(1 758)	**1 559**	(1 758)
	Increase in other assets	**(2 341)**	(21)	**(2 185)**	(40)
	Increase in derivative liabilities	**173**	(364)	**173**	(364)
	Increase in other liabilities	**3 479**	1 774	**3 370**	1 794
	Increase in loans and advances to customers	**(28 827)**	(21 922)	**(28 827)**	(21 922)
	Decrease/(increase) in FVOCI securities	**334**	(9 377)	**244**	(9 303)
	Decrease/ (increase) in CBK cash reserve requirement	**(641)**	1 702	**(673)**	1 677
	Decrease/(increase) in amounts due from group companies	**(16 382)**	6 028	**(16 451)**	6 270
	Increase in amounts due to group companies	**17 114**	(14 321)	**17 077**	(14 995)
	Increase in financial assets at FVTPL	**(7 856)**	7 418	**(7 856)**	7 418
	(Decrease)/increase in deposits from banks	**733**	(7)	**733**	(7)
	Increase in customer deposits	**15 087**	15 891	**15 828**	16 618
	Total changes in working capital	**(17 568)**	(14 957)	**(17 008)**	(14 612)
	Cash used in operations	**(20 481)**	(23 156)	**(20 614)**	(23 267)
36.	**Taxation paid**				
	Tax (payable) at start of year	**993**	425	**773**	292
	Current income tax expense (Note 13.1)	**(5 733)**	(1 925)	**(5 473)**	(1 765)
	Prior year adjustment	**(70)**	15	**(74)**	7
	Tax receivable at the end of the year	**2 521**	(993)	**2 750**	(773)
	Total income taxes paid	**(2 289)**	(2 478)	**(2 024)**	(2 239)

Notes to the annual financial statements

for the year ended 31 December 2021

		Group and Bank	
		2021	2020
37.	**Dividends paid**	**Shs'million**	Shs'million
	Dividends payable at start of the year (2020 final proposed)	-	4 888
	Dividend waiver	-	(1 225)
	Total dividends paid	-	3 663

38. **Cash and cash equivalents**

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition as follows:

	Group		Bank	
	2021 Shs'million	2020 Shs'million	**2021 Shs'million**	2020 Shs'million
Cash in hand (Note 15)	**7 730**	5 829	**7 730**	5 829
Non-cash reserve ratio balances with CBK	**1 859**	1 652	**1 773**	1 597
Loans and advances to banks (Note 19)	**3 007**	5 648	**3 007**	5 648
	12 596	13 129	**12 510**	13 074

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities.

The amount is determined as percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At the end of year, the cash reserve ratio was 4.25% (2020: 4.25%). The Bank held Shs 11 506 million as the cash reserve (2020: Shs 10 779 million).

Notes to the annual financial statements

for the year ended 31 December 2021

39. Financial instruments

39.1. Categories of financial instruments

	Fair Value through Profit/Loss Shs'million	Fair Value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Group					
Assets as per Statement of Financial Position - 2021					
Cash and balances with Central Bank of Kenya	-	-	21 009	-	21 009
Derivative financial assets	1 120	-	-	-	1 120
Loans and advances to customers	-	-	234 234	-	234 234
Debt instruments	44 196	88 380	-	-	132 576
Loans and advances to banks	-	-	3 007	-	3 007
Due from group companies	-	-	19 058	-	19 058
Other assets	-	-	9 527	-	9 527
	45 316	88 380	286 835	-	420 531
Liabilities as per Statement of Financial Position - 2021					
Derivative financial liabilities	1 344	-	-	-	1 344
Borrowings	-	-	-	8 505	8 505
Deposits from banks	-	-	-	4 809	4 809
Deposits from customers	-	-	-	268 717	268 717
Due to group companies	-	-	-	67 143	67 143
Other liabilities	-	-	-	18 872	18 872
	1 344	-	-	368 046	369 390
Interest income	-	8 297	23 741	-	32 038
Interest expense	-	-	-	(6 781)	(6 781)
	-	8 297	23 741	(6 781)	25 257

Notes to the annual financial statements

for the year ended 31 December 2021

39. Financial instruments (continued) 39.1. Categories of financial instruments (continued)	Fair Value through Profit/Loss – Held for trading Shs'million	Fair Value through OCI- Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Group					
Assets as per Statement of Financial Position - 2020					
Cash and balances with Central Bank of Kenya	-	-	18 260	-	18 260
Derivative financial assets	2 679	-	-	-	2 679
Loans and advances to customers	-	-	208 855	-	208 855
Debt instruments	36 375	89 682	-	-	126 057
Loans and advances to banks	-	-	5 648	-	5 648
Due from group companies	-	-	2 676	-	2 676
Other assets	-	-	7 261	-	7 261
	39 054	89 682	242 700	-	371 436
Liabilities as per Statement of Financial Position - 2020					
Derivative financial liabilities	1 171	-	-	-	1 171
Borrowings	-	-	-	8 211	8 211
Deposits from banks	-	-	-	4 076	4 076
Deposits from customers	-	-	-	253 630	253 630
Due to group companies	-	-	-	50 029	50 029
Other liabilities	-	-	-	15 819	15 819
	1 171	-	-	331 765	332 936
Interest income	-	8 971	22 469	-	31 440
Interest expense	-	-	-	(8 059)	(8 059)
	-	8 971	22 469	(8 059)	23 381

Notes to the annual financial statements

for the year ended 31 December 2021

39. Financial instruments (continued)

39.1. Categories of financial instruments (continued)

	Fair Value through Profit/Loss Shs'million	Fair Value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Bank					
Assets as per Statement of Financial Position - 2021					
Cash and balances with Central Bank of Kenya	-	-	21 009	-	21 009
Derivative financial assets	1 120	-	-	-	1 120
Loans and advances to customers	-	-	234 234	-	234 234
Debt instruments	44 196	87 972	-	-	132 168
Loans and advances to banks	-	-	3 007	-	3 007
Due from group companies	-	-	19 385	-	19 385
Other assets	-	-	9 314	-	9 314
	45 316	87 972	286 949	-	420 237
Liabilities as per Statement of Financial Position - 2021					
Derivative financial liabilities	1 344	-	-	-	1 344
Borrowings	-	-	-	8 505	8 505
Deposits from banks	-	-	-	4 809	4 809
Deposits from customers	-	-	-	270 737	270 737
Due to group companies	-	-	-	67 143	67 143
Other liabilities	-	-	-	18 762	18 762
	1 344	-	-	369 956	371 300
Interest income	-	8 246	23 741	-	31 987
Interest expense	-	-	-	(6 876)	(6 876)
	-	8 246	23 741	(6 876)	25 111

Notes to the annual financial statements

for the year ended 31 December 2021

39. Financial instruments (continued) 39.1. Categories of financial instruments (continued)	Fair Value through Profit/Loss – Held for trading Shs'million	Fair value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Bank					
Assets as per Statement of Financial Position - 2020					
Cash and balances with Central Bank of Kenya	-	-	18 260	-	18 260
Derivative financial assets	2 679	-	-	-	2 679
Loans and advances to customers	-	-	208 855	-	208 855
Debt instruments	36 375	89 164	-	-	125 539
Loans and advances to banks	-	-	5 648	-	5 648
Due from group companies	-	-	2 934	-	2 934
Other assets	-	-	7 206	-	7 206
	39 054	89 164	242 903	-	371 121
Liabilities as per Statement of Financial Position - 2020					
Derivative financial liabilities	1 171	-	-	-	1 171
Borrowings	-	-	-	8 211	8 211
Deposits from banks	-	-	-	4 076	4 076
Deposits from customers	-	-	-	254 909	254 909
Due to group companies	-	-	-	50 066	50 066
Other liabilities	-	-	-	15 812	15 813
	1 171	-	-	333 074	334 246
Interest income	-	8 924	22 469	-	31 393
Interest expense	-	-	-	(8 113)	(8 113)
	-	8 924	22 469	(8 113)	23 280

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management

40.1 Financial risk management objectives

Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to and monitor risks (the ERM process) that arise in the execution of the strategy 'to bring possibility to life'. It is essential that business growth plans are properly supported by an effective risk management infrastructure. Risk culture is closely aligned to that of the business, whilst retaining independence in analysis and objective decision-making. The Group's business involves taking on risks in a targeted manner and managing them professionally.

The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The main sources of financial risk that the Group faces arise from financial instruments, which are fundamental to the Group's business, and constitute the core of its operations.

Financial instruments create, modify or reduce the liquidity, credit, market and operational risks of the Group's statement of financial position and constitute the most significant sources of risk. Consequently, the Group devotes considerable resources to maintain effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of business. This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Group has clear risk management objectives and a well-established strategy to deliver them, through core risk management processes. At a strategic level, the Group's risk management objectives are to:

- Identify the Group's significant risks;
- Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and co-ordination of risk taking across the business.

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it (see panel below). The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Steps	Activity
Identify	• Establish the process for identifying and understanding business-level risks
Assess	• Agree and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements • Monitor the operation of the controls and adherence to risk direction and limits • Provide early warning of control or appetite breaches • Ensure that risk management practices and conditions are appropriate for the business environment
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes • Interpret and report on sensitivities and key risk indicators • Communicate with external parties
Manage and challenge	• Review and challenge all aspects of the Bank's risk profile • Assess new risk-return opportunities • Advise on optimising the Bank's risk profile • Review and challenge risk management practices

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.1 Financial risk management objectives (continued)

Risk responsibilities

The Group achieves its risk management objectives by keeping risk management at the centre of the executive agenda and building a culture that combines risk management with everyday business decision-making. The risks arising from financial instruments to which the Bank is exposed are:

Financial risks
(a) Credit risk;
(b) Liquidity risk;
(c) Market risk

On a day-to-day basis risks are managed through a number of management committees. Through this process the Bank monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date.

The Board approves risk appetite and the Board Audit and Risk Committee (BARC) monitors the Bank's risk profile against this appetite. In more detail:

- The BARC has responsibility for ensuring effective risk management and control.
- Business Heads are responsible for the identification and management of risk in their businesses.
- Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles for implementing appropriate controls.
- Internal Audit is responsible for the independent review of risk management and the control environment.
- The Asset and Liability Committee (ALCO) is tasked with managing financial risk, specifically liquidity, interest rates, market risk, capital management and balance sheet structure.

The Committee meets at least once a month and is instrumental in ensuring that sustainable and stable returns are obtained from the deployment of the Bank's assets within a framework of financial risks and controls. ALCO is chaired by the Managing Director and its membership comprises the Chief Financial Officer, Country Treasurer, Head of Corporate Banking, Head of Consumer Banking, the Chief Operating Officer and the Chief Risk Officer.

40.2 Credit risk

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with clients. Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties, fair value through other comprehensive income (FVOCI) assets and reverse repurchase loans. Credit risk furthermore arises from the granting of financial guarantees or making loan commitments.

Credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- monitor credit risk and adherence to agreed controls; and
- ensure that risk-reward objectives are met.

The Group manages credit risk by:

- Defining clear risk appetite thresholds and triggers, using applicable stress test measures.
- Ensuring maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty.
- Controlling concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups of borrowers, countries, and to industry segments.
- Clearly understanding the target market.
- Establishing risk acceptance criteria.
- Undertaking sound credit origination, monitoring and account management.
- Ensuring appropriate risk infrastructure and controls.

The Group has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the Credit Risk Technical Forum, Executive Risk Committee (ERC), Retail Impairment Review Committee, Scheme Loans Review Committee, Corporate and Investment Bank Models Forum, and AVAF portfolio quality Review Committee whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

The aforementioned committees also approve post model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment.

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and impairment requirements.

The key credit parameters used in this process are:

- probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

These parameters are used for the following credit risk management purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: Regulatory capital, economic capital and earnings volatility measures are used in the Group's risk appetite framework.
- Economic Capital calculations: Credit economic capital calculations use PD, LGD and EAD inputs.
- Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Group's credit risk profile.

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (on-going validation). Models are approved by the respective Chief Risk Officers supported by either the Relationship Banking Models Forum or the Corporate and Institutional Banking (CIB) Credit Models Forum. The most material models require approval by the AGL Models Committee (MC). The forum outputs are subject to oversight and ratification /approval by the Board Audit and Risk and Board credit committees with technical support and expertise from AGL

Default grades

The Group uses two types of PDs, namely:

- The through-the-cycle (TTC) PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- The point-in-time (PIT) PD, which calculated factoring the current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating or better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

Default grades (continued)

- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.
- Default: assets classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

Approach to impairment of credit exposures

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of exposures at default and assessing significant increases in credit risk.

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For the purposes of credit modelling under IFRS 9, the PD is calculated on a Point-in-time (PIT) basis and reflects the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, TTC). For IFRS 9 purposes, two distinct PD estimates are required:

- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.
- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.

The general approach to the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates. In calculating LGD, losses are discounted to the reporting date using the effective interest rate (EIR) determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.
Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate RC, EC and IFRS 9 ECL.

The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

(i) Internal risk estimates of PD, EAD and LGD are grounded in historical experience and are reliant on historical data.

(ii) PDs are assigned at account level, and consist of three elements namely:
- a term structure, capturing typical default behaviour by the months since observation;
- a behavioural model which incorporates client level risk characteristics; and
- a macro-economic model that incorporates forward looking macro-economic scenarios.

(iii) EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.

(iv) LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information; and qualitative assessments on strength of support, management, operating environment, industry, etc. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:
- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired and applies when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection; or,
- Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

Determination of the lifetime of a credit exposure:

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

Macroeconomic scenarios

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. While economic activity has started to recover due to the easing of lockdown restrictions, economic concerns remain due to higher levels of unemployment and the risk of a possible resurgence of the virus. Such risks have been incorporated in the scenarios used to calculate the Group's ECL charge at 31 December 2021.

The Group considers several factors in the development of its macroeconomic scenarios including economic growth/contraction and expected recovery, expected inflation, sector specific impacts, business confidence, property prices, household spending, exchange rate fluctuations, unemployment rates, key fiscal responses initiated by governments and regulatory actions.

A 40% probability weighting was applied to the baseline scenario; with a 30% probability weighting applied to both the upside and downside scenarios. In the normal course of events, Group Economics refresh the macroeconomic scenarios used to calculate the Group's ECL charge semi-annually. Primary forecasts are updated more regularly. Unexpected large changes in primary forecasts may warrant a revision of the macroeconomic scenarios.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Macroeconomic scenarios (continued)

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2021:

	Baseline					Downside					Upside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	4.4	5.5	5.3	5.1	5.0	5.5	6.5	6.5	6.8	6.7	2.6	3.1	3.7	4.1	4.4
CPI (%)	6.0	5.4	5.1	4.8	4.4	5.7	4.0	3.5	3.2	3.0	6.3	6.2	6.0	5.9	5.5
Average policy rate (%)	7.0	7.2	8.0	8.3	8.3	6.9	6.9	7.3	7.6	7.8	7.1	7.7	8.5	9.0	9.3

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2020:

	Baseline					Downside					Upside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	1.6	3.9	5.0	5.4	5.5	2.7	5.1	5.9	6.0	6.1	(0.4)	3.5	3.3	2.8	2.7
CPI (%)	5.2	5.1	5.3	4.5	4.3	4.9	3.0	4.1	2.9	2.8	5.4	7.3	6.1	5.2	5.1
Average policy rate (%)	7.3	7.0	7.3	7.5	7.5	7.2	6.5	6.8	7.0	7.0	7.3	7.8	8.8	8.3	8.0

In 2020, the COVID-19 shock hit the economy hard, disrupting international trade and transport, tourism, and urban services activity, in particular. Fortunately, the agricultural sector, a cornerstone of the economy, remained resilient, helping to limit the contraction in GDP to only 0.3%. Moving into 2021 a significant economic recovery has been underway, although it remains highly uneven across sectors (with some, such as tourism, remaining under pressure) in light of the delta variant as additional restrictions were needed to contain the spread thereof. This was reflected in the PMI, which fell to well below the key 50-point level (which indicates stability) in April when it came in at 41.5, pointing to a sharp contraction in private sector business conditions. With demand falling, firms cut staff levels. Notwithstanding, we believe that fiscal and monetary policy support, strong agriculture growth, an improving export market and the renewed focus on infrastructure spending should support growth of above 6% in 2021, rising further in subsequent years. Kenya's long-term oil story adds to its constructive outlook. In addition, the improvement is supported by the IMF's USD2.3 billion program, which aims to put public finances back on a sustainable path while supporting the economic recovery. The disbursements from the Fund, the issuance of a Eurobond and additional borrowing, should cover the wider current account deficit and support the exchange rate. Meanwhile, despite near-term pressure on inflation as a result of food prices pressures and significantly higher transport costs, we do not expect inflation to move above the 5%±2.5pp target range. As a result, we expect the MPC to maintain the current policy stance well into 2022 before considering tightening the policy rate, given the economy ample scope for recovery. A major risk event is Kenya's 2022 elections, with political tensions historically disrupting economic activity, dampening business and consumer confidence levels.

Sensitivity of expected credit losses

Given the level of uncertainty required in the determination of ECL, the Group has conducted a sensitivity analysis in order to indicate the impact on the ECL when assigning a probability weighting of 100% to each macroeconomic variable scenario. The analysis only reflects the impact of changing the probability assigned to each scenario to a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

ECL allowance	Shs' million
Baseline	5 192
Downside	10 286

Below is an overview of the decision framework structure required to assess the macro impacts, determine the respective Management Adjustments (MA)

Step 1 – Assess the existing Macro-economic (MEV) model

Step 2 – Analyse the impacts from using

i. Current MEV models used as the primary basis for the MA's
ii. MEV model + Judgement used as a base with specific MA's to address model shortfalls.
iii. Expert Judgement - Rebuild model with fewer / alternative variables ,Replace model scalars with more representative scalars based on assessments as an Alternative approach to incorporating MEV

Step 3 – Sense check on outputs

Step 4 – Approval of adjustments through appropriate governance

Step 5 – Management Adjustments monitoring

The above framework is to provide a consistent approach to determine Management Adjustments and follow an auditable process with clear governance throughout the process in line with the Banks policy.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Sensitivity of expected credit losses (continued)

Log-normal Judgmental Benchmarks – This non-model approach was used based on historical PD

- Modify base PDs to average 6 spot PDs
- Adjust historical PD for idiosyncratic stress
- Establish the equivalent 1/x under new lognormal benchmarks. PD benchmark stresses calculated relative to the actual PDs and not an assumed 1/5 PD as the stresses will be applied to the actual PDs in practice
- A robust rationale must be provided final choice of 1/x supported by the H2 macro outlook and other portfolio dynamics.
- A 1/x severity stress should be consistent across all portfolios in a market as the variations in portfolio performance in a 1/x should reflect in the underlying PDs.

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

Collateral

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, business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, at least annually, 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 will be within agreed parameters and will be conservative in value. The valuation is performed only on origination or in the course of enforcement actions. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation.

The Group will consider all relevant factors, including local market conditions and practices, before any collateral is realised.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.1 Maximum credit risk exposure

		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
	Gross Maximum Exposure Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG 20 – 22 Shs'million
2021								
Balances with Central Bank of Kenya	**13 283**	**10 342**	**2 941**	**-**	**-**	**-**	**-**	**-**
Financial assets at FVTPL	**44 196**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial assets	**1 120**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment securities designated at FVOCI	**88 481**	**88 481**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances to banks	**3 019**	**3 019**	**-**	**-**	**-**	**-**	**-**	**-**
Balances due from group companies	**19 058**	**9 000**	**10 058**	**-**	**-**	**-**	**-**	**-**
Other assets	**9 178**	**-**	**9 178**	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers	**251 737**	**23 571**	**185 352**	**1 575**	**-**	**14 935**	**7 487**	**18 817**
Total gross maximum exposure to credit risk	**430 072**	**134 413**	**207 529**	**1 575**	**-**	**14 935**	**7 487**	**18 817**
Expected credit losses	**(17 503)**	**(133)**	**(3 506)**	**(193)**	**-**	**(359)**	**(3 075)**	**(10 237)**
Total financial assets per the statement of financial position	**412 569**	**134 280**	**204 023**	**1 382**	**-**	**14 576**	**4 412**	**8 580**
Off balance sheet exposure	**96 986**	**9 055**	**68 378**	**4**	**-**	**18 619**	**880**	**50**

		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
	Gross Maximum Exposure Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG 20 – 22 Shs'million
2020								
Balances with Central Bank of Kenya	12 435	11 030	1 405	-	-	-	-	-
Financial assets at FVTPL	36 375	-	-	-	-	-	-	-
Derivative financial assets	2 679							
Investment securities designated at FVOCI	89 799	89 799	-	-	-	-	-	-
Loans and advances to banks	5 648	-	5 648	-	-	-	-	-
Balances due from group companies	2 676	2 676	-	-	-	-	-	-
Other assets	5 816	5 816	-	-	-	-	-	-
Loans and advances to customers	225 294	14 484	164 417	755	-	19 266	9 815	16 557
Total gross maximum exposure to credit risk	380 722	123 805	171 470	755	-	19 266	9 815	16 557
Expected credit losses	(16 439)	(35)	(2 804)	(22)	-	(598)	(4 170)	(8 810)
Total financial assets per the statement of financial position	**364 283**	**123 770**	**168 666**	**733**	**-**	**18 668**	**5 645**	**7 747**
Off balance sheet exposure	**98 033**	**10 873**	**68 758**	**-**	**-**	**17 080**	**1 257**	**65**

Notes to the annual financial statements

for the year ended 31 December 2021

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.2 Analysis of credit risk mitigation and collateral (continued)

		Collateral – credit impaired financial assets			
	Exposure relating to on SOFP	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	
2021	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs'**
Balances with Central Bank of Kenya	**13 283**	**–**	**–**	**–**	
Financial assets at fair value through other comprehensive income	**88 481**	**–**	**–**	**–**	
Derivative financial assets	**1 120**	**–**	**–**	**–**	
Financial assets at fair value through profit or loss	**44 196**	**–**	**–**	**–**	
Loans and advances to banks	**3 019**	**–**	**–**	**–**	
Other assets	**9 178**	**–**	**–**	**–**	
Loans and advances to customers	**251 737**	**185**	**5 409**	**3**	
Credit exposures relating to off-balance sheet items	**96 986**	**–**	**8**	**–**	
Balances due from group companies	**19 058**	**–**	**–**	**–**	
	527 058	**185**	**5 417**	**3**	

		Collateral – credit impaired financial assets			
	Exposure relating to on SOFP	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	
2020	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs'**
Balances with Central Bank of Kenya	12 435	-	-	-	
Financial assets at fair value through other comprehensive income	89 799	-	-	-	
Derivative financial assets	2 679	-	-	2 679	
Financial assets at fair value through profit or loss	36 375	-	-	-	
Loans and advances to banks	5 648	-	-	-	
Other assets	5 816	-	-	-	
Loans and advances to customers	225 294	250	5 248	1	
Credit exposures relating to off-balance sheet items	98 033	-	42	-	
Balances due from group companies	2 676	-	-	-	
	478 755	250	5 290	2 680	

Notes to the annual financial statements

for the year ended 31 December 2021

Collateral – All other financial assets

Other million	Unsecured Shs' million	Guarantees credit insurance and credit derivatives Shs' million	Physical collateral Shs' million	Cash collateral Shs' million	Other Shs' million	Unsecured Shs' million	Net exposure Shs' million
–	**–**	**–**	**–**	**–**	**–**	**–**	**13 283**
–	**–**	**–**	**–**	**–**	**–**	**88 481**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**1 120**
–	**–**	**–**	**–**	**–**	**–**	**–**	**44 196**
–	**–**	**–**	**–**	**–**	**–**	**–**	**3 019**
–	**–**	**–**	**–**	**–**	**–**	**–**	**9 178**
52	**13 173**	**8 224**	**28 209**	**664**	**938**	**194 880**	**–**
–	**37**	**3 166**	**9 179**	**813**	**904**	**69 775**	**13 104**
–	**–**	**–**	**–**	**–**	**–**	**–**	**19 058**
52	**13 210**	**11 390**	**37 388**	**1 477**	**1 842**	**353 136**	**102 958**

Collateral – All other financial assets

Other million	Unsecured Shs' million	Guarantees credit insurance and credit derivatives Shs' million	Physical collateral Shs' million	Cash collateral Shs' million	Other Shs' million	Unsecured Shs' million	Net exposure Shs' million
-	-	-	-	-	-	-	12 435
-	-	-	-	-	-	-	89 799
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	36 375
-	-	-	-	-	-	-	5 648
-	-	-	-	-	-	-	5 816
2 188	8 880	13 422	82 753	846	2 132	109 574	-
2	12	349	3 894	133	511	14 880	78 210
-	-	-	-	-	-	-	2 676
2 190	8 892	13 771	86 647	979	2 643	124 454	230 959

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.3 Industry analysis

Group and Bank	Financial services	Government	Manufacturing	Wholesale and retail trade
2021	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**
Financial assets				
Cash and balances with Central Bank of Kenya	**-**	**21 009**	**-**	**-**
Loans and advances to banks	**3 007**	**-**	**-**	**-**
Derivative financial instruments	**524**	**-**	**40**	**-**
Financial assets at FVTPL	**-**	**44 196**	**-**	**-**
Financial assets at FVOCI	**-**	**88 380**	**-**	**-**
Loans and advances to customers	**4 652**	**-**	**45 525**	**40 624**
	8 183	**153 585**	**45 565**	**40 624**
2020				
Cash and balances with Central Bank of Kenya	-	18 260	-	-
Loans and advances to banks	5 648	-	-	-
Derivative financial instruments	1 432	-	62	-
Financial assets at FVTPL	-	36 375	-	-
Financial assets at FVOCI	-	89 682	-	-
Loans and advances to customers	1 395	-	37 833	29 184
	8 475	144 317	37 895	29 184

Notes to the annual financial statements

for the year ended 31 December 2021

Transportation and communication Shs' million	Agricultural Shs' million	Private individuals Shs' million	Other Shs' million	Total Shs' million
-	**-**	**-**	**-**	**21 009**
-	**-**	**-**	**-**	**3 007**
6	**436**	**-**	**114**	**1 120**
-	**-**	**-**	**-**	**44 196**
-	**-**	**-**	**-**	**88 380**
6 780	**9 325**	**102 239**	**25 089**	**234 234**
6 786	**9 761**	**102 239**	**25 203**	**391 946**
-	-	-	-	18 260
-	-	-	-	5 648
9	865	-	308	2 676
-	-	-	-	36 375
-	-	-	-	89 682
8 626	11 437	99 439	20 941	208 855
8 635	12 302	99 439	21 249	361 496

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.4 Loans and advances to customers

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis. An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Group is, as follows:

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2021	**179 427**	**29 398**	**16 469**	**225 294**
Transfer to Stage 1	**4 415**	**(4 226)**	**(189)**	**-**
Transfer to Stage 2	**(4 751)**	**4 847**	**(96)**	**-**
Transfer to Stage 3	**(3 731)**	**(1 999)**	**5 730**	**-**
Financial assets that have been derecognised	**(78 974)**	**(13 355)**	**(4 085)**	**(96 414)**
Write-offs	**-**	**-**	**(2 872)**	**(2 872)**
New financial assets originated	**114 113**	**6 729**	**4 887**	**125 729**
Gross carrying amount at 31 December 2021	**210 499**	**21 394**	**19 844**	**251 737**
Gross carrying amount at 1 January 2020	184 102	11 047	10 766	205 915
Transfer to Stage 1	932	(828)	(104)	-
Transfer to Stage 2	(11 784)	11 846	(62)	-
Transfer to Stage 3	(1 787)	(1 641)	3 428	-
Financial assets that have been derecognised	(93 273)	(4 794)	(4 365)	(102,432)
Write-offs	-	-	(2 999)	(2,999)
New financial assets originated	101 237	13 768	9 805	124,810
Gross carrying amount at 31 December 2020	179 427	29 398	16 469	225 294

The weighted average effective interest rate on loans and advances at 31 December 2021 was 9 .7% (2020: 10.2 %).

	Collectively assessed			
	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2021	**2 855**	**2 024**	**5 820**	**10 699**
Transfer to Stage 1	**87**	**(83)**	**(4)**	**-**
Transfer to Stage 2	**(32)**	**33**	**(1)**	**-**
Transfer to Stage 3	**(16)**	**(142)**	**158**	**-**
Financial assets that have been derecognised	**(1 553)**	**(110)**	**(2 032)**	**(3 695)**
Write-offs	**-**	**-**	**(2 872)**	**(2 872)**
New financial assets originated	**1 464**	**1 066**	**5 277**	**7 807**
Loss allowance at 31 December 2021	**2 805**	**2 788**	**6 346**	**11 939**
Loss allowance at 1 January 2020	1 448	1 450	4 490	7 388
Transfer to Stage 1	544	(445)	(99)	-
Transfer to Stage 2	(52)	100	(48)	-
Transfer to Stage 3	(32)	(634)	666	-
Financial assets that have been derecognised	(493)	(1 164)	(556)	(2 213)
Write-offs	-	-	(2 999)	(2 999)
New financial assets originated	1 440	2 717	4 366	8 523
Loss allowance at 31 December 2020	2 855	2 024	5 820	10 699

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.4 Loans and advances to customers (continued)

	Individually assessed			
	Stage 1 Shs'million	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
Loss allowance at 1 January 2021	**926**	**786**	**4 029**	**5 741**
Transfer to Stage 1	**129**	**(129)**	**-**	**-**
Transfer to Stage 2	**(1)**	**1**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(849)**	**(326)**	**(134)**	**(1 309)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**376**	**317**	**438**	**1 131**
Loss allowance at 31 December 2021	**581**	**649**	**4 333**	**5 563**
Loss allowance at 1 January 2020	963	684	1 985	3 632
Transfer to Stage 1	(48)	48	-	-
Transfer to Stage 2	70	(72)	2	-
Transfer to Stage 3	3	30	(33)	-
Financial assets that have been derecognised	(291)	(405)	-	(696)
Write-offs	-	-	-	-
New financial assets originated	229	501	2,075	2,805
Loss allowance at 31 December 2020	926	786	4 029	5 741

40.2.5 Cash and balances with Central Bank of Kenya

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2021	**12 435**	**-**	**-**	**12 435**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**848**	**-**	**-**	**848**
Gross carrying amount at 31 December 2021	**13 283**	**-**	**-**	**13 283**
Gross carrying amount at 1 January 2020	21 719	-	-	21 719
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(9 284)	-	-	(9 284)
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Gross carrying amount at 31 December 2020	12 435	-	-	12 435

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.5 Cash and balances with Central Bank of Kenya (continued)

	Individually assessed			
	Stage 1 Shs'million	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
Loss allowance at 1 January 2021	4	-	-	**4**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Loss allowance at 31 December 2021	**4**	**-**	**-**	**4**
Loss allowance at 1 January 2020	2	-	-	2
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	2	-	-	2
Loss allowance at 31 December 2020	4	-	-	4

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
40.2.6 Loans and advances to Bank				
Gross carrying amount at 1 January 2021	**5 648**	**-**	**-**	**5 648**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(2 630)**	**-**	**-**	**(2 630)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Gross carrying amount at 31 December 2021	**3 018**	**-**	**-**	**3 018**
Gross carrying amount at 1 January 2020	3 803	-	-	3 803
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	1 845	-	-	1 845
Gross carrying amount at 31 December 2020	5 648	-	-	5 648
Loss allowance at 1 January 2021	**-**	**-**	**-**	**-**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**12**	**-**	**-**	**12**
Loss allowance at 31 December 2021	**12**	**-**	**-**	**12**
Loss allowance at 1 January 2020	1	-	-	1
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	(1)	-	-	(1)
Loss allowance at 31 December 2020	-	-	-	-

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.2 Credit risk (continued)

40.2.7 Financial assets at FVOCI

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2021	**89 799**	**-**	**-**	**89 799**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(1 318)**	**-**	**-**	**(1 318)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Gross carrying amount at 31 December 2021	**88 481**	**-**	**-**	**88 481**
Gross carrying amount at 1 January 2020	79 281	-	-	79 281
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	10 518	-	-	10 518
Gross carrying amount at 31 December 2020	89 799	-	-	89 799
Loss allowance at 1 January 2021	**117**	**-**	**-**	**117**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(16)**	**-**	**-**	**(16)**
New financial assets originated	**-**	**-**	**-**	**-**
Loss allowance at 31 December 2021	**101**	**-**	**-**	**101**
Loss allowance at 1 January 2020	60	-	-	60
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
New financial assets originated	57	-	-	57
Loss allowance at 31 December 2020	117	-	-	117

40. Risk management (continued)

Notes to the annual financial statements

for the year ended 31 December 2021

40.2 Credit risk (continued)

40.2.8 Credit exposures relating to off-balance sheet position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group and Bank	
	2021 Shs'million	2020 Shs'million
Financial guarantee contracts	**19 702**	19 800
Irrevocable debt facilities	**55 535**	56 814
Letters of credit	**21 749**	21 396
	96 986	98 010

40.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads and comprises:

Traded market risk

The risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank. The risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. Trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as "interest rate risk in the banking book".

Non-traded market risk:

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 equity risks arising from the Bank's fair value through profit or loss and FVOCI financial assets.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed 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 comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank 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 Bank'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 Bank'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 Bank's trading desk. The daily VAR for the Bank closed the year at Shs 30.5 million (2020: Shs 31.8 million).

(b) Stress tests

The Bank 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 of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.4 Foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenyan Shillings):

	Group and Bank	
	Assets Shs'million	**Liabilities Shs'million**
The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:		
2021		
USD	**155 960**	**157 566**
GBP	**6 603**	**6 546**
Euro	**29 843**	**29 845**
JPY	**1 653**	**1 669**
CHF	**188**	**186**
ZAR	**119**	**122**
Other	**242**	**202**
	194 608	**196 136**

	Group and Bank	
	Assets Shs'million	Liabilities Shs'million
2020		
USD	133 695	(135 846)
GBP	5 746	(5 743)
Euro	47 885	(47 905)
JPY	1 617	(1 615)
CHF	206	(206)
ZAR	154	(155)
Other	1 104	(1 050)
	190 407	(192 520)

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.4 Foreign currency risk (continued)

Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to a 10% increase and decrease in the Kenyan Shilling against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end of a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Shilling strengthens 10% against the relevant currency. For a 10% weakening of the Shilling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balance below would be negative.

	2020 Profit of loss Shs' million	2020 Profit of loss Shs' million
Assets		
USD	**15 596**	13 369
GBP	**660**	575
Euro	**2 984**	4 789
JPY	**165**	162
CHF	**19**	21
ZAR	**12**	15
Other	**24**	110
Liabilities		
USD	**(15 757)**	(13 585)
GBP	**(655)**	(574)
Euro	**(2 985)**	(4 791)
JPY	**(167)**	(162)
CHF	**(19)**	(21)
ZAR	**(12)**	(15)
Other	**(20)**	(105)
	(155)	(212)
Income tax effect at 30%	**47**	64
After tax (loss)/profit effect	**(108)**	(148)

As at 31 December 2021 if the Shilling had weakened / strengthened by 10% against the major trading currencies listed above, with all other variables remaining constant, the after tax loss would have been Shs 107 million (2020: Shs 148 million) lower / higher net of tax.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.5 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The responsibility of managing risk lies with the Assets and Liabilities Committee ("ALCO"). Through this process the Group monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to the Country Management Committee (CMC) and the Board.

Interest rate risk arises due to re-pricing differences between assets, liabilities and equity, originating from the provision of retail and wholesale banking products and services (considered core banking activities), together with certain rate insensitive exposures within the balance sheet. This risk impacts both the earnings and economic value of the Bank.

40.5.1 Interest rate benchmark reform

Background

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The GBP, EUR and JPY LIBOR rates and the one-week and two-month USD LIBOR rates will be discontinued at 31 December 2021. The remaining USD LIBOR rates is expected to be discontinued post 30 June 2023. The Central Bank of Kenya is working with the domestic financial market industry regarding the transition.

The Group's exposure to IBORs subject to change at 31 December 2021 is not significant compared to those expected to be changed post June 2023. The GBP Libor, EUR Libor, JPY Libor and US Libor have transitioned to the Sterling Overnight Index Average (SONIA), Euro Short-Term Rate (€STR), Tokyo Overnight Average Rate (TONAR) and Secured Overnight Financing Rate (SOFR) respectively as alternative reference rates.

The Group's IBOR transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

The main risks to which the Group is exposed as result of IBOR reform are operational as detailed below:

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest.

Pricing and Valuation considerations: International Securities and Derivatives Association ("ISDA") published the IBOR Fallbacks Supplement and ISDA 2020 IBOR Fallbacks Protocol on 23 October 2020. New fallbacks for derivatives linked to key IBORs came into effect on 25 January 2021, ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while entities continue to have exposure to that rate. The supplement incorporates the fallbacks into all new non-cleared derivatives contracts from 25 January 2021 that reference the 2006 ISDA Definitions. Derivative participants can incorporate the fallback into legacy non-cleared derivatives contracts via use of an ISDA protocol or through bilateral negotiation. For cleared derivatives, central counterparties (CCPs) have incorporated the ISDA IBOR fallbacks in their rule books for both new and legacy contracts.

Accounting: If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working proactively with all counterparties to minimise this risk from occurring.

Operational risk: The Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time resulting in additional manual procedures which give rise to operational risks.

The Group is managing these risks and has established a Libor Benchmark Reform Project with various workstreams overseeing the transition of the Libors to the alternative reference rates i.e. Customer Engagement, Legal Remediation, Product Lifecycle and System Readiness workstreams looking at the relevant aspects of the Project and a Project SteerCo responsible for overall oversight to ensure that achievement of the milestones and activities are on track.

The Group has transitioned existing Non-USD facilities as at 31st December 2021 referencing EUR and GBP Libors to EURIBOR and GBP SONIA respectively as these Libors were abolished by the end of 2021. The existing USD facilities referencing USD Libor will be transitioned to USD SOFR by end of June 2023 as USD Libor will be abolished by June 2023.

The Group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty on the timing and amount of cash flows arising from interest rate benchmark reform ends. It is expected that this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.5 Interest rate risk (continued)

40.5.1 Interest rate benchmark reform (continued)

Consolidated Statement of Financial Position Summary – IBOR Reform Note

	Carrying values of financial instruments impacted by benchmark reform and yet to transition					
	USD LIBOR Shs'million	GBP LIBOR Shs'million	EUR LIBOR Shs'million	JPY LIBOR Shs'million	Other Shs'million	Total Shs'million
Non-derivative assets[1]	57 840	8	7 810	395	-	66 053
	57 840	8	7 810	395	-	66 053

Financial instrument modifications due to IBOR reforms

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform if the following conditions are met; the change is necessary as a direct consequence of the reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis i.e. the basis immediately before the change.

[1]Includes both on balance sheet and off-balance sheet exposures. Carrying amounts for on balance sheet and notional amounts for off-balance sheet have been included.

40.5.2 Interest rate sensitivity analysis

Group 2021	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	21 009	21 009
Financial assets at fair value through profit or loss	1 282	6 020	15 433	21 461	-	44 196
Financial assets at fair value through other comprehensive income	3 671	4 003	14 621	66 085	-	88 380
Deposits and balances due from banking institutions	3 007	-	-	-	-	3 007
Due from group companies	10 058	-	9 000	-	-	19 058
Loans and advances to customers	192 794	1 130	5 092	15 022	20 196	234 234
Total assets	**210 812**	**11 153**	**44 146**	**102 568**	**41 205**	**409 884**
Liabilities						
Deposits and balances due to banking institutions	4 809	-	-	-	-	4 809
Due to group companies	14 741	16 462	35 940	-	-	67 143
Customer deposits	101 421	11 955	33 006	23 799	98 536	268 717
Borrowings	-	8 486	-	-	-	8 486
Total liabilities and equity	**120 971**	**36 903**	**68 946**	**23 799**	**98 536**	**349 155**
Interest rate sensitivity gap	**89 841**	**(25 750)**	**(24 800)**	**78 769**	**(57 331)**	**60 729**

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.5 Interest rate risk (continued)

40.5.2 Interest rate sensitivity analysis (continued)

2020	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Interest rate sensitivity analysis (continued)						
Group						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	18 260	18 260
Financial assets at fair value through profit or loss	8 285	2 979	9 294	15 817	-	36 375
Financial assets at fair value through other comprehensive income	10 567	2 047	23 415	53 653	-	89 682
Deposits and balances due from banking institutions	5 648	-	-	-	-	5 648
Due from group companies	2 676	-	-	-	-	2 676
Loans and advances to customers	195 191	1 000	4 389	8 275	-	208 855
Total assets	222 367	6 026	37 098	77 745	18 260	361 496
Liabilities						
Deposits and balances due to banking institutions	4 076	-	-	-	-	4 076
Due to group companies	6 382	17 014	26 670	-	-	50 066
Customer deposits	74 782	18 593	26 433	13 487	120 335	253 630
Borrowings	2 731	5 480	-	-	-	8 211
Total liabilities and equity	87 971	41 087	53 103	13 487	120 335	315 983
Interest rate sensitivity gap	134 396	(35 061)	(16 005)	64 258	(102 075)	45 513

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Group	**1% Increase in interest rate 2021 Shs'million**	**1% Decrease in interest rates 2021 Shs'million**	1% Increase in interest rate 2020 Shs'million	1% Decrease in interest rates 2020 Shs'million
Changes in interest				
Increase/(decrease) in interest received	**2 303**	**(1 789)**	2 155	(1 624)
Increase/(decrease) in interest paid	**(1 568)**	**597**	(1 448)	372
Increase/(decrease) in profit before taxation	**735**	**(1 192)**	707	(1 252)
(Decrease)/increase in income tax	**(221)**	**358**	(212)	376
Increase/(decrease) in profit after tax	**514**	**(834)**	495	(876)

As at 31 December 2021 if interest rates were to increase / decrease by 1%, with all other variables remaining constant, the after tax profit would have been Shs 514 million (2020: Shs 495 million) higher / 834 million (2020: Shs 876 million) lower with other components of equity

Notes to the annual financial statements

for the year ended 31 December 2021

remaining the same.

40. Risk management (continued)

40.6 Liquidity risk

Confidence in an organization, and hence liquidity, can be affected by a range of institution specific and market-wide events including, amongst others, market rumours, credit events, payment system disruptions, systemic shocks, and even natural disasters.

The definition of liquidity risk is the risk that the Bank 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 client 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 Bank-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 Bank. In illiquid markets, the Bank may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Bank'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 Bank 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:

- To 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;
- To maintain market confidence in the Bank's name;
- To set limits to control liquidity risk within and across lines of business;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- To 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.

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Liquidity stress testing;
- Liquidity planning (funding plans, contingency funding plans, recovery and resolution planning);
- Reporting and behavioural balance sheet analysis;
- Funds transfer pricing; and – Defined management actions to mitigate risk.

Stress and scenario testing:

Under the Liquidity Risk Framework, the Group has established the Liquidity Risk Appetite ("LRA"), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations.

It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool. Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. Treasury develops and monitors stress tests on the Group's projected cash flows.

These stress scenarios include the Group's specific scenarios such as unexpected operational problems and external sources such as country crises, payment system disruption and macroeconomic shocks. Stress testing also allows the Group to identify appropriate responses to crises, setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk. The results of the stress tests are therefore used to develop the CFP (Contingency Funding Plan) and are taken into account when setting limits for the management of liquidity risk and the business planning process.

The Group maintains a range of early warning indicators ("EWIs"). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Company CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.6 Liquidity risk (continued)

The Group CFP is regularly tested and updated so as to ensure that it is operationally robust. Diversification Sources of liquidity are regularly reviewed by a separate team within Treasury to maintain a wide diversification by provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

Assets held for managing liquidity risk

The Group maintains a portfolio of highly marketable assets, which includes a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets that may be held for managing liquidity risk may comprise cash deposits with the Central bank/monetary authority and/or holdings of high quality eligible liquid assets, such as, for example, government bonds or other securities that would be readily acceptable in repurchase agreements.

Funds transfer pricing:

Liquidity costs, benefits and risk should be clearly and transparently attributed to business lines and understood by business line management. The Group Treasury and ALCO are responsible for implementing a "funds transfer pricing" mechanism as a means of communicating and disseminating the cost of liquidity risk.

Group deploys liquidity risk funds transfer pricing processes as a means of controlling the behavioural profile of the Group's balance sheet. Funds transfer pricing incentivises business units to manage assets and liabilities in accordance with the Group liquidity risk appetite.

Structural liquidity:

An important source of structural liquidity is provided by core deposits; mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts on short notice, the Group's broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

Notes to the annual financial statements

for the year ended 31 December 2021

Sources of liquidity risk

Group has material liquidity risk exposure arising from the following sources:

- Wholesale secured and unsecured funding risk

  Wholesale funding providers are a key source of liquidity funding for the Group operations. A disruption to wholesale markets could impact the Group's ability to effectively fund certain business activities.

- Retail funding risk

  Most retail loans and advances are funded by customer deposits. A material loss of retail deposit funding could arise through a lack of confidence in the Group name or credit worthiness; and could impact the Group's ability to effectively fund retail banking operations.

- Contingent liquidity risks

  The Group could experience material cash outflows arising from contingent events such as rating downgrade triggers, off balance sheet transactions, drawdowns of unused credit facilities and the early termination of derivative transactions.

- Concentration risk

  Concentrations in the sources of funding utilised by the Group can give rise to liquidity risk if access to any of these sources is disrupted. Other funding source represent risk to the Group when these sources are subject to material counterparties, markets, currencies, tenors or instrument types. The table below represents the undiscounted cash flows payable by the Bank under non – derivative financial liabilities by remaining contractual liabilities at the balance sheet date.

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.6 Liquidity risk (continued)

Group and Bank	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Total Shs'million
	Undiscounted maturity					Discounted maturity
2021						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	**21 009**	**-**	**-**	**-**	**21 009**	**21 009**
Financial assets at fair value through profit or loss	**-**	**24 026**	**32 384**	**-**	**56 410**	**44 196**
Financial assets at fair value through other comprehensive income	**-**	**22 828**	**97 391**	**-**	**120 219**	**88 380**
Deposits and balances due from banking institutions	**3 007**	**-**	**-**	**-**	**3 007**	**3 007**
Due from group companies	**167**	**21 330**	**-**	**-**	**21 497**	**19 385**
Loans and advances to customers	**23 834**	**60 178**	**171 483**	**187 703**	**443 198**	**234 234**
Total non-derivative financial assets	**48 017**	**128 362**	**301 258**	**187 703**	**665 340**	**410 211**
Non-derivative financial liabilities						
Amounts owing to related parties	**266**	**74 228**	**-**	**-**	**74 494**	**67 143**
Deposits from customers	**201 518**	**73 202**	**1 791**	**-**	**276 511**	**268 717**
Deposits and balances due to banking institutions	**4 809**	**-**	**-**	**-**	**4 809**	**4 809**
Borrowings	**-**	**-**	**12 215**	**-**	**12 215**	**8 505**
Other liabilities and accrued expenses	**1 544**	**19 235**	**-**	**-**	**20 779**	**18 874**
Total non-derivative financial liabilities	**208 137**	**166 665**	**14 006**	**-**	**388 808**	**368 048**
Liquidity gap	**(160 120)**	**(38 303)**	**287 252**	**187 703**	**276 532**	**42 163**

Group	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Total Shs'million
	Undiscounted maturity					Discounted maturity
2020						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	18 260	-	-	-	18 260	18 260
Financial assets at fair value through profit or loss	-	22 924	22 578	-	45 502	36 375
Financial assets at fair value through other comprehensive income	-	39 694	55 654	77 406	172 754	89 682
Deposits and balances due from banking institutions	5 648	-	-	-	5 648	5 648
Due from group companies	747	1 898	315	-	2 960	2 676
Loans and advances to customers	11 703	54 103	173 221	141 848	380 875	208 855
Total non-derivative financial assets	36 358	118 619	251 768	219 254	625 999	361 496
Non-derivative financial liabilities						
Amounts owing to related parties	1 490	43 572	10 728	9 248	65 038	50 029
Deposits from customers	193 041	65 912	1 731	-	260 684	253 630
Deposits and balances due to banking institutions	4 076	-	-	-	4 076	4 076
Borrowings	-	-	11 792	-	11 792	8 211
Other liabilities and accrued expenses	1 823	15 537	-	-	17 360	15 819
Total non-derivative financial liabilities	200 430	125 021	24 251	9 248	358 950	331 765
Liquidity gap	(164 072)	(6 402)	227 517	210 006	267 049	29 731

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.6 Liquidity risk (continued)

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and other financial securities, which can be readily sold to meet liquidity requirements.

Group	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	Total Shs'million
2021				
Cash and balances with Central Bank of Kenya	**21 009**	**-**	**-**	**21 009**
Financial assets at fair value through other comprehensive income	**-**	**20 567**	**67 813**	**88 380**
Assets held for managing liquidity	**21 009**	**20 567**	**67 813**	**109 389**
2020				
Cash and balances with Central Bank of Kenya	18 260	-	-	18 260
Financial assets at fair value through other comprehensive income	-	35 763	53 919	89 682
Assets held for managing liquidity	18 260	35 763	53 919	107 942

Derivative liabilities

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2021	Notional amount	On demand	Within 1 year	More than 5 years
Derivative liabilities held for trading	**(90 454)**	**-**	**-**	**-**
Outflow	**-**	**(90 454)**	**-**	**-**
	(90 454)	**(90 454)**	**-**	**-**
31 December 2020				
Derivative liabilities held for trading	(93 380)	-	-	-
Outflow	-	(93 380)	-	-
	(93 380)	(93 380)	-	-

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.7 Capital risk management

The risk weighted assets are measured using the Risk weights prescribed under the Central Bank prudential guidelines.

Capital risk is the risk that the Bank is unable to maintain adequate levels of capital which could lead to an inability to:

(i) support business activity;
(ii) a failure to meet regulatory requirements;
(iii) changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

Our objectives are achieved through well embedded capital management practices:

Primary objectives and core practices:

- Provide a viable and sustainable business offering by maintaining adequate capital to cover the Bank's current and forecast business needs and associated risks
- Monitor internal targets for capital demand and ratios
- 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) Support the Bank's growth and strategic options
- 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 Absa operates.

Capital planning

Capital forecasts are managed through both Short Term (Year 1 monthly) and Medium Term (3 year) financial planning cycles. The capital plan is developed with the objective of maintaining capital that is adequate in quantity and quality to support our risk profile and business needs. Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to Asset and Liability Committee (ALCO).

Regulatory Capital

The Bank maintains a ratio of total regulatory capital to its risk-weighted above a minimum level prescribed by the Central Bank of Kenya. The Bank's regulatory capital is managed by its Treasury and comprises two tiers:

(i) Tier 1 capital:

- Share capital,
- Retained earnings, excluding unrealised gains arising on the fair valuation of fair value through other comprehensive income investments; and

(ii) Tier 2 capital:

- Statutory reserve;
- Medium term note; and
- Subordinated loan capital

Notes to the annual financial statements

for the year ended 31 December 2021

40. Risk management (continued)

40.7 Capital risk management (continued)

Regulatory Capital (continued)

Bank	Regulatory minimum	As at 31 Dec 2021 Shs'million	As at 31 Dec 2020 Shs'million
Tier 1	10.5%	14.6%	14.7%
Total capital	14.5%	17.1%	17.5%
Tier 1 Capital	1 000	47 871	43 736
Ordinary share capital		2 716	2 716
Retained earnings		45 155	41 020
Tier 2 Capital		8 487	8 193
Subordinated debt		8 487	8 193
Total regulatory capital	1 000	56 358	51 929
Total risk weighted assets		328 712	297 314
Total shareholders' equity/capital resources		54 355	44 971
Core capital/total deposit liabilities	8.0%	17.9%	17.3%
Liquidity ratio	20.0%	38.3%	38.7%

41. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behavior that was used for estimating the EIR. Issued debt reflects the contractual coupon amortization.

As at 31 December 2021	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	21 009	-	21 009
Loans and advances to banks	3 007	-	3 007
Financial assets at fair value through profit or loss	21 647	22 549	44 196
Derivative financial instruments	1 120	-	1 120
Financial assets at FVOCI	20 567	67 813	88 380
Due from group companies	19 058	-	19 058
Loans and advances to customers	78 052	156 182	234 234
Other assets and prepaid expenses	10 050	-	10 050
Non-current assets held for sale	47	-	47
Property and equipment	-	2 374	2 374
Other intangible assets	-	481	481
Leasehold land	-	33	33
Deferred income tax	-	4 738	4 738
Total assets	174 557	254 170	428 727
Liabilities			
Deposits from banks	4 809	-	4 809
Derivative financial instruments	1 344	-	1 344
Due to group companies	67 143	-	67 143
Deposits from customers	266 326	2 391	268 717
Borrowings	-	8 505	8 505
Other liabilities and accrued expenses	18 872	-	18 872
Current income tax	2 521	-	2 521
Retirement benefit liability	-	363	363
Total liabilities	361 015	11 259	372 274
Net	(186 458)	242 911	56 453

Notes to the annual financial statements

for the year ended 31 December 2021

41 Maturity analysis of assets and liabilities (continued)

As at 31 December 2020	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	18 260	-	18 260
Loans and advances to banks	5 648	-	5 648
Financial assets at fair value through profit or loss	20 654	15 721	36 375
Derivative financial instruments	2 679	-	2 679
Financial assets at FVOCI	35 763	53 919	89 682
Due from group companies	2 676	-	2 676
Loans and advances to customers	60 448	148 407	208 855
Other assets and prepaid expenses	7 709	-	7 709
Current income tax	993	-	993
Non-current assets held for sale	47	-	47
Property and equipment	-	2 809	2 809
Other intangible assets	-	414	414
Leasehold land	-	34	34
Deferred income tax	-	3 188	3 188
Retirement benefit asset	-	72	72
Total assets	154 877	224 564	379 441
Liabilities			
Deposits from banks	4 076	-	4 076
Derivative financial instruments	1 171	-	1 171
Due to group companies	50 029	-	50 029
Deposits from customers	252 425	1 205	253 630
Borrowings	-	8 211	8 211
Other liabilities and accrued expenses	15 819	-	15 819
Total liabilities	323 520	9 416	332 936
Net	(168 643)	215 148	46 505

Notes to the annual financial statements

for the year ended 31 December 2021

42. Fair value hierarchy of assets and liabilities held at fair value

42.1 Fair value hierarchy

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfer between levels of fair value hierarchy is recognised by the Bank at the end of the reporting period during which the change occurred.

Process of determination and use of estimates, assumptions and judgements

Loans and advances

The fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

The fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship are taken through profit and loss in the statement of comprehensive income.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are short-term in nature or have interest rates that re-price frequently.

Notes to the annual financial statements

for the year ended 31 December 2021

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.1 Fair value hierarchy (continued)

Group

2021 **Recurring fair value measurements**	**Level 1** **Shs'million**	**Level 2** **Shs'million**	**Level 3** **Shs'million**	**Total** **Shs'million**
Financial assets				
Fair value through profit or loss:				
Trading securities	**-**	**44 196**	**-**	**44 196**
Derivatives financial assets	**-**	**1 120**	**-**	**1 120**
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	**-**	**(1 344)**	**-**	**(1 344)**
	-	**43 972**	**-**	**43 972**
Financial assets				
Fair value through OCI:				
Government securities	**-**	**88 830**	**-**	**88 830**
	-	**88 830**	**-**	**88 830**

Group

2020				
Financial assets				
Fair value through profit or loss				
Trading securities	-	36 375	-	36 375
Derivatives financial assets	-	2 679	-	2 679
Financial liabilities				
Fair value through profit and loss				
Derivatives financial liabilities	-	(1 171)	-	(1 171)
	-	37 883	-	37 883
Financial assets				
Fair value through OCI:				
Government securities	-	89 682	-	89 682
	-	89 682	-	89 682

Notes to the annual financial statements

for the year ended 31 December 2021

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.2 Assets and liabilities carried at amortised cost

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

2021

Group	Carrying amount Shs'million	Fair value Shs'million	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Assets at amortised cost					
Cash and cash equivalents	**21 009**	**21 009**	**-**	**21 009**	**-**
Loans and advances to banks	**3 007**	**3 007**	**-**	**-**	**3 007**
Due from group companies	**19 058**	**19 058**	**-**	**-**	**19 058**
Loans and advances to customers	**234 234**	**234 234**	**-**	**-**	**234 234**
Total	**277 308**	**277 308**	**-**	**21 009**	**256 299**
Liabilities at amortised cost					
Deposits from banks	**4 809**	**4 809**	**-**		**4 809**
Due to group companies	**67 143**	**67 143**	**-**		**67 143**
Deposits from customers	**268 717**	**268 717**	**-**		**268 717**
Borrowings	**8 505**	**8 505**	**-**		**8 505**
Total	**349 174**	**349 174**	**-**		**349 174**

2020

Assets at amortised cost					
Cash and cash equivalents	18 260	18 260	-	18 260	-
Loans and advances to banks	5 648	5 648	-	-	5 648
Due from group companies	2 676	2 676	-	-	2 676
Loans and advances to customers	208 855	208 855	-	-	208 855
Total	235 439	235 439	-	18 260	217 179
Liabilities at amortised cost					
Deposits from banks	4 076	4 076	-	-	4 076
Due to group companies	50 029	50 029	-	-	50 029
Customer deposits	253 630	253 630	-	-	253 630
Borrowings	8 211	8 211	-	-	8 211
Total	315 946	315 946	-	-	315 946

Notes to the annual financial statements

for the year ended 31 December 2021

42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.3 Valuation techniques for the level 2 fair value measurement of assets and liabilities held at fair value

The table below sets out information about the valuation techniques applied at the end of the reporting period in measuring assets and liabilities whose fair value is categorised as Level 2 in the fair value hierarchy. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations is set out in the table below:

Category of asset/liability	Valuation technique applied	Significant observable inputs
Government debt instruments	Discounted cash flow valuation technique	Quoted yields and 15 bps bid offer adjustment that management has estimated as the reasonable basis for applying the adjustment
Foreign exchange derivatives	Discounted cash flow valuation technique	Spot price, interest rate and/ or volatility

42.4 Valuation techniques for the levels 1, 2 or 3 fair value measurement of assets and liabilities held at amortised cost

For assets or liabilities held at amortised cost and disclosed in levels 1, 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. However, if the items mature in less than five years, these inputs are considered observable.

43. Segmental reporting

43.1. Statement of financial position

The Group has two main business segments:

- Consumer banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages; and
- Corporate banking –the business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients.

Given the majority of the Group revenues are derived from interest and dealing activities and the Country Management Committee (CMC) relies primarily on net interest revenue and dealing income to assess the performance of the segments, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year. The revenue from external parties reported to the CMC is measured in a manner consistent with that in the consolidated statement of profit or loss. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the CMC. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation, property and equipment.

Notes to the annual financial statements

for the year ended 31 December 2021

43. Segmental reporting (continued)

43.2. Statement of comprehensive income

	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
2021			
Net interest income	**4 835**	**20 422**	**25 257**
Non-interest income	**5 190**	**5 853**	**11 043**
Total income	**10 025**	**26 275**	**36 300**
Impairment losses on financial instruments	**121**	**(4 208)**	**(4 087)**
Net operating income	**10 146**	**22 067**	**32 213**
Operating expenses			
Depreciation and amortisation	**(34)**	**(867)**	**(901)**
Other operating expenses	**(3 461)**	**(12 302)**	**(15 763)**
Total operating expenses	**(3 495)**	**(13 169)**	**(16 664)**
Profit before tax	**6 651**	**8 898**	**15 549**
Taxation	**(2 193)**	**(2 486)**	**(4 679)**
Profit for the year	**4 458**	**6 412**	**10 870**
2020			
Net interest income	4 701	18 680	23 381
Non-interest income	5 016	5 684	10 700
Total income	9 717	24 364	34 081
Impairment losses on financial instruments	(1 918)	(6 667)	(8 585)
Net operating income	7 799	17 697	25 496
Operating expenses			
Depreciation and amortisation	-	(1 346)	(1 346)
Other operating expenses	(3 700)	(14 803)	(18 503)
Total operating expenses	(3 700)	(16 149)	(19 849)
Profit before tax	4 099	1 548	5 647
Taxation	(1 076)	(408)	(1 484)
Profit for the year	3 023	1 140	4 163

43.3 Statement of financial position

	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
2021			
Loans and advances to customers	**95 622**	**138 612**	**234 234**
Loans and advances to banks	**3 007**	**–**	**3 007**
Other assets	**90 246**	**101 235**	**191 481**
	188 875	**239 847**	**428 722**
Liabilities			
Deposits from customers	**51 887**	**216 830**	**268 717**
Trade and other payables	**86 632**	**16 925**	**103 557**
	138 519	**233 755**	**372 274**

Notes to the annual financial statements

for the year ended 31 December 2021

43. Segmental reporting (continued)

43.3 Statement of financial position (continued)

2020	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Assets			
Loans and advances to customers	77 649	131 206	208 855
Loans and advances to banks	-	5 648	5 648
Other assets	77 641	87 297	164 938
	155 290	224 151	379 441
Liabilities			
Deposits from customers	46 878	206 752	253 630
Trade and other payables	66 674	12 632	79 306
	113 552	219 384	332 936

44. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position (SOFP) where the Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.
The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2021 and 31 December 2020. The column 'net amount 'shows the impact on the Bank's statement of financial position if all set-off rights were exercised. There were no gross amounts set off in the statement of financial position at 31 December 2021 (2020: Nil).

Group and Bank	Effects of offsetting in the SOFP	Related amounts not offset		
2021	Amounts presented in the SOFP Shs'million	Amounts subject to master netting agreement Shs'million	Financial instrument collateral Shs'million	Net amount Shs'million
Financial assets				
Loans and advances to customers	**234 234**	**-**	**(1 065)**	**233 169**
	234 234	**-**	**(1 065)**	**233 169**
Liabilities				
Deposits from customers	**268 717**	**-**	**(1 065)**	**267 652**
	268 717	**-**	**(1 065)**	**267 652**

Group and Bank	Effects of offsetting in the SOFP	Related amounts not offset		
	Amounts presented in the SOFP Shs'million	Amounts subject to master netting agreement Shs'million	Financial instrument collateral Shs'million	Net amount Shs'million
2020				
Financial assets				
Loans and advances to customers	208 855	-	(1 014)	207 841
	208 855	-	(1 014)	207 841
Liabilities				
Deposits from customers	253 630	-	(1 014)	252 616
	253 630	-	(1 014)	252 616

Notes to the annual financial statements

for the year ended 31 December 2021

44. Offsetting financial assets and financial liabilities (continued)

Master netting arrangements

Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Bank does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the table above.

45. Related parties

Absa Bank Kenya PLC is a subsidiary of Absa Group Limited, which is listed on the Johannesburg Stock Exchange. The ultimate parent of the Group is Absa Group Limited. There are other companies which are related to Absa Bank Kenya PLC through common shareholdings or common directorships.

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

A number of banking transactions are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

a) Key management personnel compensation and non executive directors

	2021 Shs' million	2020 Shs' million
Non-deferred cash payments	**152**	92
Post-employment benefit contributions	**32**	35
Salaries and other short-term benefits	**405**	440
Share-based payments	**134**	122
	723	689

a) Key management personnel compensation and non executive directors (continued)

	2021 Shs' million	2020 Shs' million
The compensation paid to directors was in respect of: Services rendered as directors of the Bank	**39**	39
	39	39

b) Statement of comprehensive income

	Relationship	**Interest received Shs'million**	**Interest paid Shs'million**	**Recharges Shs'million**
2021				
Absa Group Limited	Parent	**2**	**651**	**1 654**
Absa Bank Mauritius	Sister	**424**	**-**	**-**
		426	**651**	**1 654**
2020				
Absa Group Limited	Parent	**6**	**739**	**1 509**
		6	**739**	**1 509**

In the normal course of business, placings of foreign currencies are made with the parent company and other companies at interest rates in line with the market.

Notes to the annual financial statements

for the year ended 31 December 2021

45. Related parties (continued)

The weighted average effective interest rate at 31 December 2021 on amounts due from group companies was 0.2% (2020:0.2%) and on amounts due to group companies was 3.0% (2020: 3.0%).

Group companies provide support services from time to time for which they recharge the costs incurred at the country of origin.

The value of the services provided has been debited to the profit or loss and is included in total expenditure of the Group.

Absa Bank Kenya PLC Staff Pension Fund and Absa Bank Kenya PLC (DC) Scheme 2009 (the "Funds") are sponsored by Absa Bank Kenya PLC. The Funds' foreign investments are managed by Barclays Private Banking & Trust Limited, which is a related entity to the Fund by virtue of shareholding.

c) Due from Group companies

	Relationship	Group		Bank	
		2021 Shs' million	2020 Shs'million	**2021 Shs' million**	2020 Shs'million
Absa Group Limited	Parent	**10 023**	2 071	**10 023**	2 071
Absa Bank Mauritius	Sister	**9 004**	-	**9 004**	-
Absa Bank Ghana	Sister	**-**	2	**-**	2
Absa Bank Uganda	Sister	**16**	483	**16**	483
Absa Bank Tanzania	Sister	**1**	50	**1**	50
Absa Life Assurance Kenya	Sister	**9**	37	**9**	37
First Assurance Kenya	Sister	**5**	33	**5**	33
Absa Bancassurance Intermediary Limited	Subsidiary	**-**	-	**141**	41
Absa Securities Limited	Subsidiary	**-**	-	**118**	149
Absa Asset Management Limited	Subsidiary	**-**	-	**68**	68
		19 058	2 676	**19 385**	2 934

d) Due to Group companies

Absa Group Limited	Parent	**(58 078)**	(50 009)	**(58 078)**	(50 009)
Absa Bank Mauritius	Sister	**(9 005)**	(1)	**(9 005)**	(1)
Absa Bank Zambia	Sister	**(2)**	(6)	**(2)**	(6)
Absa Bank Uganda	Sister	**(29)**	(13)	**(29)**	(13)
Absa Bank Tanzania	Sister	**(29)**	-	**(29)**	-
Absa Bancassurance Intermediary Limited	Subsidiary	**-**	-	**-**	(37)
		(67 143)	(50 029)	**(67 143)**	(50 066)

At 31 December 2021 advances to directors or companies controlled by directors or their families amounted to Shs 35 million (2020: Shs 35 million). Interest income earned amounted to Shs 5 million (2020: 5 million). All loans to Directors, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features. No allowances for impairment were recognised in respect of loans to Directors. (2020: Nil).

During the year the directors maintained various deposit accounts with the Bank which included current, savings and fixed deposit accounts. At 31 December 2021, balances relating to directors deposits amounted to Shs 85 million (2020: Shs 101 million).

e) Guarantee

In the year ending 31 December 2021, there was no guarantee given or received to/from any related party (2020: NIL).

46. Commitments and contingencies

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

Notes to the annual financial statements

for the year ended 31 December 2021

		Group and Bank	
46.	**Commitments and contingencies (continued)**	**2021 Shs'million**	2020 Shs'million
46.1	**Commitments**		
	Undrawn overdraft facilities	**13 164**	18 436
46.2	**Contingent liabilities**		
	Letters of credit	**21 749**	21 397
	Guarantee and performance bonds	**19 702**	19 800
	Unutilised lines of credit	**42 371**	38 377
		83 822	79 574

Pledged assets amounted to Shs 1 250 million (2020: Shs 1,250 million). The class of asset pledged in both years was a bond issue. The purpose of the pledge was to create an ILF (Intra-Day Liquidity Facility) with the Central Bank of Kenya. The ILF provides collateralised lending of funds to commercial bank to facilitate their daily intra-day payment obligations in the Kenya Electronic Payment and Settlement System (KEPSS). Under this facility, commercial banks identify and set aside pre-determined amounts of Government securities from their portfolio holdings for securing intra-day borrowings based on their anticipated average daily liquidity requirements.

In the event of failure to settle by the Bank, the ILF shall convert to an overnight facility. The underlying pledged securities shall therefore become encumbered.

In common with other banks, the group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the consolidated balance sheet.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The group expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of documents, which are subsequently reimbursed by customers.

Guarantees and assets pledged as security are generally written by a bank to support the performance of a customer to third parties. The group will only be required to meet these obligations in the event of the customers' default. At year end, the bank has obtained undertakings from Absa Group Limited in respect of bonds, guarantees and indemnities facility and letters of credit of Shs 3 504 million (2020: Shs 12 170 million).

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

46.3 Contingent tax liabilities

The bank has transactions and calculations for which the ultimate tax treatment involves a degree of estimation and judgement. The tax treatment adopted by the Kenya Revenue Authority may differ from the treatment applied by the Bank thus requiring determination by the courts. Management estimates are informed by a number of factors including inter alia, tax consultant's advice, the advice of expert legal counsel and the precedents established by past judgements of the High Court of Kenya. The Directors are of the opinion that no significant impact will arise from such transactions and calculations.

46.4 Leases – Bank as lessor

The Bank acts as lessor of rental space. These leases have an average life of between three and five years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Rental income recognised by the Bank during the year is Shs 40 million (2020: Shs 16 million).

Future minimum lease payments under non–cancellable leases as at 31 December were, as follows:

	2021 Shs'million	2020 Shs'million
Within one year	**40**	16
After one year but not more than five years	**160**	46
	200	62

Notes to the annual financial statements

for the year ended 31 December 2021

46. Commitments and contingencies (continued)

46.5 Dividends per share

The Directors recommend a dividend of Shs 1.10 per share in respect of the year ended 31 December 2021 (2020: Nil). No interim dividend was paid in the year (2020: Nil). This will bring the total dividend for the year to Shs 1.10 (2020: Nil) per share amounting to Shs 5 975 million (2020: Nil).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-residents.

47. Subsequent events

The estimates and judgements applied to determine the financial position at 31 December 2021, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date.

The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2021 and the date of authorization of these consolidated annual financial statements.

48. New accounting pronouncements

Adoption of new and revised Standards

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 (Effective for annual periods beginning on or after 1 April 2021)

Key requirements

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification.

A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Transition

Lessees will apply the amendment retrospectively, recognising the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which they first apply the amendment. In the reporting period in which a lessee first applies the 2021 amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8.

In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the relief consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient before or after the amendment.

Impact

The amendment to IFRS 16 will provide relief to lessees for accounting for rent concessions from lessors specifically arising from the covid-19 pandemic. While lessees that elect to apply the practical expedient do not need to assess whether a concession constitutes a modification, lessees still need to evaluate the appropriate accounting for each concession as the terms of the concession granted may vary.

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

IFRS 16

Effective for annual periods beginning on or after 1 January 2021

Key requirements

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform.

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred.

Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognised. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss.

The practical expedient is also required for entities applying IFRS 4 that are using the exemption from IFRS 9 (and, therefore, apply IAS 39 Financial Instruments: Recognition and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

Relief from discontinuing hedging relationships

The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognise hedge ineffectiveness. Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the RFR affect profit or loss.

For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero. This relief applies when the exception to the retrospective assessment ends.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk.

As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform. The phase two reliefs cease to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components

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

Additional disclosures

IFRS 7 Financial Instruments: Disclosures includes the following:

- How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform
- Disaggregated by each significant IBOR benchmark, quantitative information about financial instruments that have yet to transition to RFRs
- If IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes

Transition

The amendments are mandatory, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the phase two amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

Reference to the Conceptual Framework – Amendments to IFRS 3 (Effective for annual periods beginning on or after 1 January 2022)

Key requirements

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Reference to the Conceptual Framework – Amendments to IFRS 3 (Effective for annual periods beginning on or after 1 January 2022)

Transition

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018).

Impact

The amendments are intended to update a reference to the Conceptual Framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use.

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (Effective for annual periods beginning on or after 1 January 2022)

Key requirements

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Transition

The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for first-time adopters.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (Effective for annual periods beginning on or after 1 January 2022)

Key requirements

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'.

The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Transition

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

Impact

The amendments are intended to provide clarity and help ensure consistent application of the standard. Entities that previously applied the incremental cost approach will see provisions increase to reflect the inclusion of costs related directly to contract activities, whilst entities that previously recognised contract loss provisions using the guidance from the former standard, IAS 11 Construction Contracts, will be required to exclude the allocation of indirect overheads from their provisions. Judgement will be required in determining which costs are 'directly related to contract activities', but we believe that guidance in IFRS 15 Revenue from Contracts with Customers will be relevant.

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2023)

Background

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. In June 2020, the IASB issued amendments to IFRS 17. These amendments included changing the effective date to 2023. In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 to analyse implementation-related

questions. The TRG met four times and while no further meetings have been scheduled, the TRG submission process remains open for stakeholders to send in questions they believe meet the TRG

submission criteria.

Scope

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based

on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

The measurement of the present value of future cash flows, incorporating an explicit risk adjustment,

remeasured every reporting period (the fulfilment cash flows)

- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided over the coverage period.
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event
- occurs (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- A loss-recovery component of the asset for the remaining coverage of a group of reinsurance contracts held is determined and recorded in profit or loss when an entity recognises a recovery of a loss on initial recognition of an onerous group of underlying issued contracts as well as for subsequent measurement of the recovery of those losses
- Entities should present separately in the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. The Board decided on a retrospective approach for estimating

the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2023)

- Modified retrospective approach - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- Fair value approach - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 Fair Value Measurement and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date) Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Impact

IFRS 17, together with IFRS 9, will result in profound changes to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected.

Finalisation of the amendment to IFRS 17

In December 2021, the IASB amended IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies IFRS 17 (i.e., from transition date to the date of initial application of IFRS 17).

This amendment is not expected to have an impact on the Group.

Classification of Liabilities as Current or Non – current – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2023)

Key requirements

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

Transition and impact

Many entities will find themselves already in compliance with the amendments. However, entities need to consider whether some of the amendments may impact their current practice. Entities need to carefully consider whether there are any aspects of the amendments that suggest that terms of their

existing loan agreements should be renegotiated. In this context, it is important to highlight that the amendments must be applied retrospectively.

Proposed amendments

In November 2021, the Board published an exposure draft in which it proposed that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current.

Additional presentation and disclosure requirements would be applicable in such circumstances, including presenting non-current liabilities that are subject to covenants to be complied with within twelve months after the reporting period, separately in the statement of financial position.

Furthermore, the Board proposed to defer the effective date to no earlier than 1 January 2024 (from 1 January 2023). Comments are due to be received by the Board by 21 March 2022.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (Effective for annual periods beginning on or after 1 January 2023)

Key requirements

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies

And

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures Replacement of the term 'significant' with 'material' .In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

Disclosure of standardised information

Although standardised information is less useful to users than entity-specific accounting policy information, the Board agreed that, in some circumstances, standardised accounting policy information may be needed for users to understand other material information in the financial statements. In those

situations, standardised accounting policy information is material, and should be disclosed.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (Effective for annual periods beginning on or after 1 January 2023)

The amendments to the PS also provide examples of situations when generic or standardised information summarising or duplicating the requirements of IFRS may be considered material accounting policy information.

Transition

Earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed. Since the amendments to the PS provide non-mandatory guidance on the application of the definition of material to accounting policy information, the Board concluded that transition requirements and an effective date for these amendments were not necessary.

Impact

The amendments may impact the accounting policy disclosures of entities. Determining whether accounting policies are material or not requires use of judgement. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard.

Entities should carefully consider whether 'standardised information, or information that only duplicates or summarises the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements.

Notes to the annual financial statements

for the year ended 31 December 2021

48. New accounting pronouncements (continued)

Definition of Accounting Estimates – Amendments to IAS 8 (Effective for annual periods beginning on or after 1 January 2023

Key requirements

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

Changes in accounting estimates

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

Illustrative examples

The amendments include two illustrative examples to help stakeholders understand how to apply the new definition of accounting estimates.

Transition

The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

Impact

The amendments are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Although the amendments are not expected to have a material impact on entities' financial statements, they should provide helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (Effective for annual periods beginning on or after 1 January 2023)

Key requirements

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

Determining the tax base of assets and liabilities

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Changes to the initial recognition exception Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the Board expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

Transition

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

Notice of the Annual General Meeting

ABSA BANK KENYA PLC

Notice of the 43rd Annual General Meeting

Notice is hereby given that the **Forty–Third (43rd) Annual General Meeting** of the Shareholders of Absa Bank Kenya Plc (the "Company") will be held via electronic means on **Thursday May 26, 2022** at **10:00 a.m.** to transact the following business: -

Agenda

1. Constitution of the Meeting

The Secretary to read the notice convening the meeting and determine if a quorum is present.

2. Ordinary Business

i. Annual Report, Financial Statements, Directors' and Auditors' reports for the year ended December 31, 2021:

To receive, consider and if thought fit, adopt the Audited Annual Report and Financial Statements for the year ended December 31, 2021 together with the reports of the Directors, the Board Chairman, the Managing Director and the External Auditor.

ii. Dividend

To declare a dividend of Kshs. 1.10 for each ordinary share on the issued and paid-up share capital of the Company, to be paid on or about **May 26, 2022** to shareholders on the Register of Members as at the close of business on **April 25, 2022.**

iii. Election of Directors

a) Directors retiring by rotation

In accordance with Articles 103, 104 and 105 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election:

i. Ms. Patricia Ithau

ii. Ms. Laila Macharia

b) Director appointed to fill a casual vacancy on the Board

In accordance with Article 110 of the Company's Articles of Association, Ms. Christine Mideva Sabwa, a Director appointed to fill a casual vacancy, is due for retirement this being the first Annual General Meeting to be held since her appointment, and being eligible, offers herself for re-election.

c) Board Audit and Risk Committee members

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit & Risk Committee be elected to continue to serve as members of the Board Audit and Risk Committee:

i. Ms. Laila Macharia (Chair)

ii. Mr. Louis Onyango Otieno

iii. Ms. Patricia Ithau

iv. Mr. Fulvio Tonelli

v. Ms. Christine Mideva Sabwa

iv. Remuneration of Directors

To receive, consider and if thought fit approve the Directors' Remuneration Report and to authorize the Board to fix the Directors' remuneration for the year ending December 31, 2022.

v. Appointment of Auditors

To consider and if thought fit pass the following as an ordinary resolution: -

"That KPMG Kenya be appointed as the new auditors of the Company in place of Ernst & Young LLP (whose term expires at the end of this meeting), with effect from the end of this meeting until the end of the next Annual General Meeting", and to authorize the Board to fix the remuneration of the Auditors.

3. Special Business

To consider and, if thought fit, pass the following resolution as a Special Resolution: -

THAT Article 86 of the Articles of Association be amended by deleting 'three' and substituting thereof with 'five' to read as follows: -

DIRECTORS

86. The number of Directors shall be not less than ~~three~~ five and, unless and until otherwise determined by the Company in General Meeting, shall not exceed fourteen.

Notice of the Annual General Meeting

4. Any Other Business

To transact any other business of the Company for which due notice has been received.

By Order of the Board

Loise W. Gakumo
Company Secretary

April 25, 2022

Notes:

1. The Company will be holding a virtual AGM as permitted by Article 74A of its Articles of Association replicated below:

   74. The Members may, if they think fit, or if the Directors notify them that such is the manner in which any particular meeting would be held, confer or hold a meeting by radio, telephone, closed circuit television, video conferencing or other electronic, or other, means of audio or audio/visual communication, or a combination thereof ("Conference"). Notwithstanding that the Members are not present together in one place at the time of the Conference, a resolution passed by the Members constituting a quorum at such a Conference shall be deemed to have been passed at a General Meeting held on the day on which and at the time at which the Conference was held. The provisions of these relating to proceedings of Members apply insofar as they are capable of application mutatis mutandis to such Conference. Such a general meeting shall be deemed to have been held at the registered office of the Company..

2. Shareholders wishing to participate in the meeting should register for the AGM by visiting the online portal https://digital.candrgroup.co.ke or dialling ***483*156#** and following the various prompts regarding the registration process. Shareholders will not incur any cost for such registration. In order to complete the registration process, shareholders will need to have their ID/Passport numbers which were used to purchase their shares and their Shares Account or CDSC Account Number at hand. For assistance shareholders should dial the following **helpline number (020) 760 8216** from 9:00am to 3:00pm from Monday to Friday. Any shareholder outside Kenya should dial the helpline number or email digital@candrgroup.co.ke to be assisted to register.

3. Shareholders who had already registered in the online portal can log in using their existing login credentials and click on the button "Already Registered View this AGM" to confirm their registration for the current AGM and to ask questions or vote on the portal. Shareholders who had already registered on the USSD platform will be provided with an sms link to confirm their registration for the current AGM.

4. Registration for the AGM opens on **Thursday May 12, 2022** at 8:00am and will close on **Wednesday May 25, 2022** at 12:00pm. Shareholders will not be able to register after Wednesday May 25, 2022.

5. In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2021.

6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

   (i) Using the sms/email link to the event provided after registration is completed or reconfirmed to access the AGM, or

   (ii) Accessing https://digital.candrgroup.co.ke; selecting "Attend Event", "ABSA AGM", "Q&A" tab and submitting their questions; or

   (iii) Dialling the USSD code ***483*156#** and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message

   (iv) sending their written questions by email to digital@candrgroup.co.ke; or

   (v) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at Absa Headquarters, Waiyaki Way, Nairobi or to Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue; or

   (vi) sending their written questions with a return postal address or email address by registered post to the Company's address at P.O. Box 30120-00100 Nairobi

   Written Questions

   Shareholders must provide their full details (full names, ID/Passport Number, Shares or CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Monday May 23, 2022 at 10:00am. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting.

   Questions via the AGM portal

Notice of the Annual General Meeting

Shareholders will be able to ask questions on the virtual AGM platform up to and during the AGM using the online portal or the USSD code.

Live Questions during the AGM

There will be opportunity provided for shareholders to virtually join the AGM to ask their questions during the meeting. Shareholders wishing to ask their questions live during the AGM can join the meeting room during the AGM (by selecting the "Join AGM Meeting Room" tab at the bottom of the live stream display window). In the meeting room shareholders can continue watching the AGM broadcast and either i) select "raise hand" option on their screen to request an opportunity to ask their questions live to the Board or ii) enter their questions in the live chat to be read out to the Board during the AGM.

Shareholders should note that it may not be possible to answer all questions during the AGM. A full list of questions received, and the answers thereto will be published on the Company's website 24 hours after the conclusion of the general meeting.

7. Shareholders will be allowed to vote up to and during the AGM by accessing the sms/email access link for the AGM sent after registration or via the online portal https://digital.candrgroup.co.ke or dialling USSD Code ***483*156#** and following the various prompts regarding the voting process. Voting results will be announced in the meeting prior to the conclusion of the AGM. The voting results will also be published within 24 hours of the conclusion of the meeting on the Bank's website: www.absabank.co.ke.

8. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: **Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue**. To be valid, the proxy form must be duly completed by the shareholder or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be give under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than **10.00 a.m**. on **Tuesday May 24, 2022**. The duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday May 25, 2022 to allow time to address any issues.

9. The AGM will be accessible to shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS) or an email prompt on their registered mobile number/email address, which shall be sent one (1) day before the AGM, reminding duly registered shareholders and proxies that the AGM will be the following day. A second sms/email prompt will be sent to duly registered shareholders on the day of the AGM with a link to access the Virtual AGM broadcast, the voting and Q&A tabs, and the virtual meeting room link.

10. Duly registered shareholders and proxies can also access the Virtual AGM using their log in credentials via https://digital.candrgroup.co.ke. Shareholders without internet access can access the Virtual AGM voting menu using their log in credentials via USSD *483*156#.

All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority') as abandoned assets on the appointed date

Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd (C&R Group)
IKM Place, Tower B, 1st Floor
5th Ngong Avenue, Nairobi
Tel + 254 20 760 8216
Email: info@candrgroup.co.ke

Proxy form

Custody and Registrars Services Limited
IKM House, Tower B, 1st Floor, 5th Ngong Avenue
P. O Box 8484-00100, Nairobi

*I/We ____

____of___________________________

____being *a member/members of Absa Bank Kenya PLC, hereby appoint:

____

____

of (address, email and telephone number)

____

____

____

____

or failing *him/her ____

____

of (address, email and telephone number)

____

____

____

____

and failing *him/her the Chairman of the meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Forty-Second Annual General Meeting of the Company to be held on **Thursday May 26, 2022** and at any adjournment thereof.

As witness *I/we affix *my/our *hand/hands this__________________________ day of ________________2022.

Signature(s) ____

Unless otherwise instructed, the proxy will vote as *he/she thinks fit.

Delete whichever is not applicable.

Proxy form

1. Shareholders wishing to participate in the meeting should register for the AGM by visiting the online portal https://digital.candrgroup.co.ke or dialling ***483*156#** and following the various prompts regarding the registration process. Shareholders will not incur any cost for such registration. In order to complete the registration process, shareholders will need to have their ID/Passport numbers which were used to purchase their shares and their Shares Account or CDSC Account Number at hand. For assistance shareholders should dial the following **helpline numbers (020) 760 8216** from 9:00am to 3:00pm from Monday to Friday. Any shareholder outside Kenya should dial the helpline numbers or email digital@candrgroup.co.ke to be assisted to register.
2. Shareholders who had already registered in the online portal can log in using their existing login credentials and click on the button "Already Registered View this AGM" to confirm their registration for the current AGM and to ask questions or vote on the portal. Shareholders who had already registered on the USSD platform will be provided with an sms link to confirm their registration for the current AGM.
3. Registration for the AGM opens on **Thursday May 12, 2022** at **8:00am** and will close on **Wednesday May 25, 2022** at **12:00pm**. Shareholders will not be able to register after Wednesday May 25, 2022.
4. In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2021.
5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

   (i) Using the sms/email link to the event provided after registration is completed or reconfirmed to access the AGM, or

   (ii) Accessing https://digital.candrgroup.co.ke; selecting "Attend Event", "ABSA AGM", "Q&A" tab and submitting their questions; or

   (iii) Dialling the USSD code ***483*156#** and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message

   (iv) sending their written questions by email to digital@candrgroup.co.ke; or

   (v) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at Absa Headquarters, Waiyaki Way, Nairobi or to Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue; or

   (vi) sending their written questions with a return postal address or email address by registered post to the Company's address at P.O. Box 30120-00100 Nairobi

   Written Questions

   Shareholders must provide their full details (full names, ID/Passport Number, Shares or CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Monday May 23, 2022 at 10:00am. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting.

   Questions via the AGM portal

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   Live Questions during the AGM

   There will be opportunity provided for shareholders to virtually join the AGM to ask their questions during the meeting. Shareholders wishing to ask their questions live during the AGM can join the meeting room during the AGM (by selecting the "Join AGM Meeting Room" tab at the bottom of the live stream display window). In the meeting room shareholders can continue watching the AGM broadcast and either i) select "raise hand" option on their screen to request an opportunity to ask their questions live to the Board or ii) enter their questions in the live chat to be read out to the Board during the AGM.

   Shareholders should note that it may not be possible to answer all questions during the AGM. A full list of questions received, and the answers thereto will be published on the Company's website 24 hours after the conclusion of the general meeting.
6. Shareholders will be allowed to vote up to and during the AGM by accessing the sms/email access link for the AGM sent after registration or via the online portal https://digital.candrgroup.co.ke or dialling USSD Code ***483*156#** and following the various prompts regarding the voting process. Voting results will be announced in the meeting prior to the conclusion of the AGM. The voting results will also be published within 24 hours of the conclusion of the meeting on the Bank's website: www.absabank.co.ke.

Proxy form

7. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: **Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue.** To be valid, the proxy form must be duly completed by the shareholder or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be give under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to **Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue** Nairobi or be posted to **Custody and Registrars Services, P. O. Box 8484-00100 Nairobi**, so as to reach the Registrar not later than 10.00 a.m. on **Tuesday May 24, 2022**. The duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday May 25, 2022 to allow time to address any issues.

8. The AGM will be accessible to shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS) or an email prompt on their registered mobile number/email address, which shall be sent one (1) day before the AGM, reminding duly registered shareholders and proxies that the AGM will be the following day. A second sms/email prompt will be sent to duly registered shareholders on the day of the AGM with a link to access the Virtual AGM broadcast, the voting and Q&A tabs, and the virtual meeting room link.

9. Duly registered shareholders and proxies can also access the Virtual AGM using their log in credentials via https://digital.candrgroup.co.ke. Shareholders without internet access can access the Virtual AGM voting menu using their log in credentials via USSD ***483*156#.**

Notes