EQUITY GROUP FOUNDATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Equity Centre
Hospital Road, Upper Hill
P.O. Box 75104 – 00200
Nairobi

LAWYER

Dentons Hamilton Harrison & Mathews
Delta Office Suites, Waiyaki Way
P. O. Box 30333 – 00100
Nairobi

BANKER

Equity Bank (Kenya) Limited
Equity Centre Branch
Hospital Road, Upper Hill
P.O. Box 75104 – 00200
Nairobi

AUDITOR

PricewaterhouseCoopers LLP
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963 – 00100
Nairobi, Kenya.

SECRETARY

Christine Browne
Equity Centre
Hospital Road, Upper Hill
P.O. Box 75104 – 00200
Nairobi

The Directors submit their report together with the audited financial statements of Equity Group Foundation (the "Company" / the "Foundation"/EGF) for the year ended 31 December 2019.

BUSINESS REVIEW

Equity Group Foundation (EGF) was founded in 2008 as a social impact company with the aim of leading Equity Group Holdings efforts to transform the lives and livelihoods of the people of Africa with a goal of impacting the lives of 100 million people by 2024.

EGF delivers innovative, pioneering tools in order to socially and economically empower individuals, and communities to better their lives. EGF implements high-impact development programmes by leveraging Equity Group's infrastructure and resources and forging strategic partnerships with development partners, government, the private sector as well as local and international organizations.

By leveraging Equity Group's infrastructure and resources, EGF optimizes its return on its social impact investments giving it the capacity to scale its programs for greater, more sustained impact. EGF's development programs are delivered as a unique, integrated, innovative model across six pillars that serve to transform lives, give dignity and expand opportunities by:

- Connecting people at the bottom of the pyramid with opportunities, capacity, tools and services for social and economic development.
- Leveraging the Group's infrastructure to implement programs; and
- Providing a stable and strong platform for partnerships and impact funding for social impact investments.

Our bottom line is a self-sustaining continent. We aim to be the benchmark of technology and innovation globally.

<u>EGF strives to create change through six key social thematic areas namely:</u>

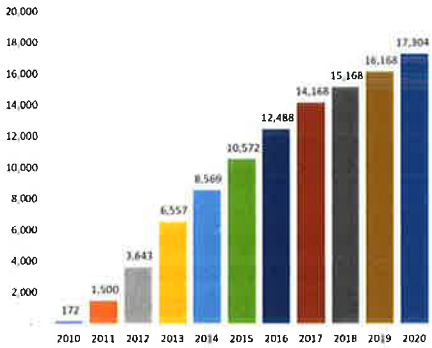
- Education and Leadership Development
- Enterprise Development and Financial Inclusion
- Food and Agriculture
- Health
- Clean Energy and Environment
- Social Protections

PILLARS

Education And Leadership Development

Education & Leadership Development: Equity's Leadership Program (ELP) is empowering a continent by creating better livelihoods through education. The goal of the Equity Leadership Program is to develop and inspire 40,000 young leaders to support the social transformation and economic growth of their communities, countries, and beyond. EGF manages two secondary school programs.

- **Wings to Fly**: The Wings to Fly scholarship program, a signature initiative of the Equity Group and Mastercard Foundation (MCF) with support from other partners was established to support comprehensive secondary education for top performing young people from financially challenged backgrounds from all over Kenya during their 4 years of schooling. The scholarship offers tuition, books, uniforms, shopping, transport and stipend.



- **Elimu Scholarship Program:** Designed together with the World Bank and in partnership with the Government of Kenya, the Elimu scholarship draws from the success of the Wings to Fly program. The first Cohort of 9,000 scholarships were successfully selected in December 2019 for start of secondary school enrolment in January 2020, with a goal to support 18,000 full four-year secondary school scholarships in coming years.

- **EGF Transitions Programs:**
The Equity transition programs help support students who choose to follow an alternative path to university education.

Scholar-Level

- Provide **professional growth** through paid internships and mentorship
- Provide opportunities to study in **globally renowned universities** through college counseling program
- Promote **values-based leadership** and **entrepreneurial thinking** through Mentorship and Exposure to Equity Group leadership business
- Develop an ethic for **giving back** to scale self and Equity's impact (purpose driven lives)

Organizational-Level

- Provide **high-potential talent** to Equity Group, Kenya, and beyond
- Produce community and industry **leaders**, as well as **socially-driven entrepreneurs**
- Develop **brand ambassadors** for Equity Group in the communities
- **Nurture business partnerships** with program beneficiaries

Societal-Level

- Create a community of transformative leaders who work together across borders and across sectors to drive sustainable economic growth and social progress in Africa

PILLARS (continued)

- **Technical and Vocational Education and Training [TVET]** institutes offer an alternate post-secondary transition pathway. To date, 3,300 TVET opportunities have been offered to Wings to Fly alumni. The program also offers career advisory while in secondary school; Convening post-graduation to advise on course selection; Placement by Kenya Universities and Colleges Central Placement Service (KUCCPS); Scholarship administration and support to apply for HELB loan.

  - **Internship Program:** School break internships provide real-world experience and financial support for scholars. This program is fully sponsored by Equity Bank and almost 6,000 top performing secondary school graduates have accessed leadership training, coaching and mentoring prior to proceeding to university.
  - **College Counselling Program** - 554 scholars have been supported to gain admission and scholarships to study in leading global institutions across 25 countries. The preparation and assistance includes SAT/ACT practice and preparation, university and colleges selection, application documents sending, pre-departure briefing and airfare token. Local university admission accommodates the bulk of Wings to Fly graduates and top performing scholars.

Key Achievements:

- Since its inception, the Wings to Fly Program has seen 16,168 of its scholars access secondary education through comprehensive scholarships coupled with mentorship, leadership development and psychosocial support
- In 2019, 1,000 candidates were accepted into WTF.
- 81.3% gained university entry.
- 223 scholars with grade A or higher were eligible to join the paid internship program.
- 96% secondary school completion rate.
- 86% take on leadership roles.
- 30% of the graduates proceed to secure global.
  scholarships at Universities worldwide.
- To date EGF has supported 13,755 university scholars.

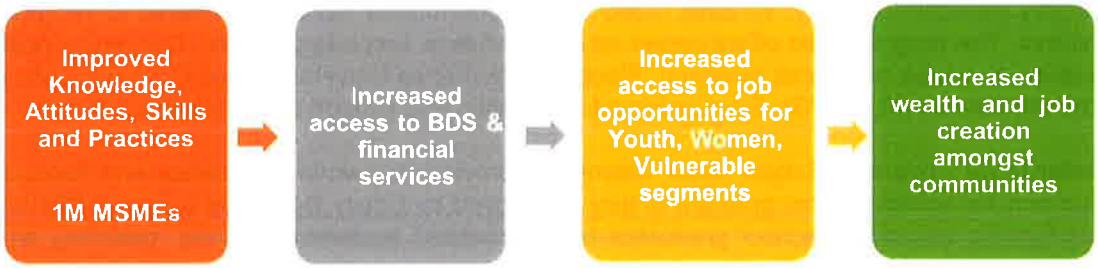
Entrepreneurship

Enterprise Development and Financial Inclusion: EGF stimulates job creation and economic growth by providing micro and small entrepreneurs with advice, mentorship, training and access to capital. EGF aims to catalyze MSME growth by supporting access to financial and business development services (BDS) which in return delivers both a bottom-line ROI and a social return ROI.

- Business Training - The business skills training is based on the International Labour Organisation (ILO) Start and Improve Your Business (SIYB) curricula.
- Digital Literacy Training- Digital Literacy training is conducted for Micro, Small and Medium scale enterprises (MSMEs).
- Mentorship & Coaching - We provide hand holding or aftercare through mentoring and business advisory visits, and also Business support and advice through SMS tips.

PILLARS (continued)

Results Summary:



- FIKA (Financial Knowledge for Africa): EGF in partnership with MasterCard Foundation launched FiKA in 2010, to deliver quality financial literacy training to women, youth and micro-entrepreneurs from low income areas. The program, which covers budgeting, savings, debt management and financial services and products has trained over 1.8 million people.

- Young Africa Works Kenya: A partnership between Equity Group Foundation and Mastercard Foundation will provide 150,000 micro-small and medium entrepreneurs with advice, mentorship, training and access to financial and business development services to create 810,000 jobs by the year 2023.

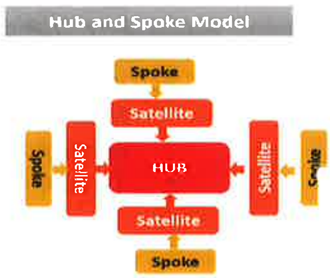
Key Achievements:

- 52,774 micro, small and medium enterprises trained in entrepreneurship
- 2,021,182 women and youth trained in financial education

Health

Health (Equity Afia): Equity Afia (EQA) was established in 2015 with funding support from USAID, under EGF's Health pillar as a response to the growing need for affordable and accessible quality healthcare for Kenyans. Equity Afia operates as a franchise network of medical outpatient centers, run by qualified and experienced doctors who are alumni of the Equity Leaders Program. The integrated, scalable, and sustainable healthcare delivery model focuses on prevention and general health. Strategies include:

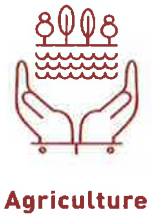
- **Provider Reform:** EGF is developing a network of 300 health franchises to provide affordable, high quality, and standardized health services across Kenya using a hub-and-spoke model.
- **Client Reform:** Social marketing campaigns, technology and mobile phone applications are deployed to increase healthcare and health insurance literacy across Kenya.
- **Insurance Reform:** Provider and patient informed comprehensive health insurance schemes are being developed using capitation payment models for outpatient services and bundled care payment models for inpatient services, instead of the prevailing, unsustainable fee-for-service model.



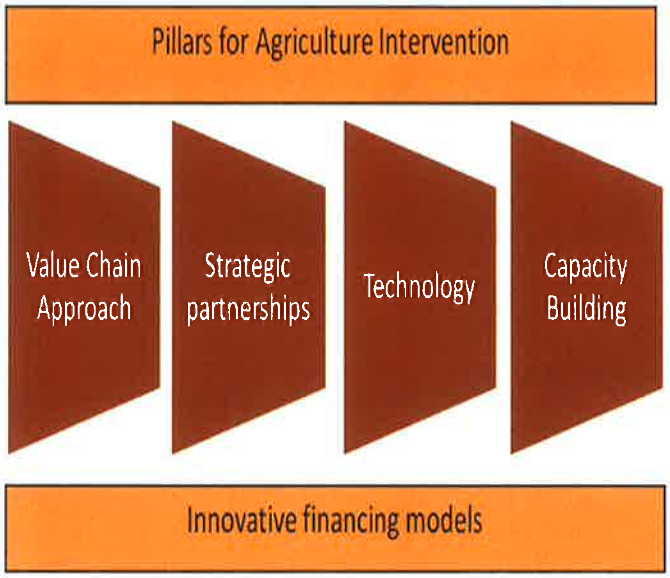
Key Achievements:

- 154,137 cumulative patient visits
- 11 Equity Afia clinics
- 165 new jobs created
- Operating by the WHO recommended doctor-patient ratio of 1:1000 against the country's current ratio of 1:6000

PILLARS (continued)



Food and Agriculture: EGF'S commitment and investment in agriculture is guided by the Sustainable Development Goals (SDGs), Kenya's Vision 2030 and the Malabo Declaration (in which Equity Group is a member organization). Agricultural growth in Kenya has the potential to ensure food security, reduce the cost and reliance on food imports, and lower food prices. Medium sized farms are essential to Kenya's pursuit of food security and can have an unlocking effect on the sector. Our aim is to accelerate economic growth by commercializing agriculture to help create jobs, improve market access, and expand agricultural production through partnerships with farmers and other key players.



- To combat systemic challenges in the agriculture system, EGF designed and launched an Agriculture Growth Accelerator Program in 2014 with funding from the Embassy of the Kingdom of Netherlands in Nairobi and Equity Bank. Designed to `Unlock the Potential' of Medium Sized Farms and transform Small Scale Farmers to Agribusiness Entrepreneurs, while supporting Small and Medium Sized Farmers to scale up their yields and businesses.
- In 2018, EGF with funding from the Norwegian Agency for Development Cooperation (Norad) designed a three-year program dubbed "Financial Access to SME and Rural Population in Agriculture using Technology (FASRAT)".

  The program aims to reach 60,000 rural farmers and workers in agriculture and 5,000 SMEs including agro-processors, giving special consideration to farms and businesses that are owned by women and youth. The goal of the program is to facilitate agribusiness enterprises growth through agribusiness, entrepreneurship, financial education, and value chain integration trainings that enhance access to finance and markets. This approach will actively take advantage of opportunities in agriculture value chains while leveraging on technology.

  Key Achievements:

  - By the end of 2019, the programs had supported 638,522 small-scale farmers who have been transformed to agribusiness entrepreneurs and 2,616 medium sized farmers to agribusiness entrepreneurs.
  - 33,127 medium-sized farmers have accessed USD2M in loans.
  - 13,692 Farmers trained on financial education, and agribusiness and GAP
  - 1,093 SMEs trained on enterprise development modules.
  - Loans offered at a discounted rate to small holder farmers borrowing as little as ksh 10,000

Energy and Environment: EGF accelerates access to clean energy that improves the social and economic well-being of our customers and the community while creating positive environmental outcomes in Africa. We do this in a sustainable and commercially viable way by promoting the conservation of natural resources through expanding forest cover, improving water security and providing renewable energy and energy efficient technologies as smart alternatives with no negative effects on the environment and with climate mitigation in mind for our customers. Our comprehensive interventions focus on Energy Solutions in Agriculture, Productive Use of Clean Energy, Water Storage and Purification and Commercial Energy Solutions. Access to affordable and suitable clean energy for all is what drives us.

PILLARS (continued)

ENERGY: Energy efficiency, renewable energy, storage, smart grids, energy access

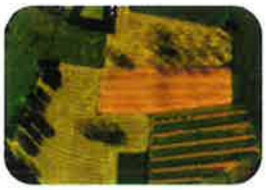
TRANSPORTATION: Energy efficient components, fuels and logistics

WATER: Capture, treatment, conservation, wastewater treatment, access

AIR & ENVIRONMENT: Carbon credits, trading and offsets

BUILDINGS: Low carbon strategy, energy efficiency, sustainable materials, green buildings

MANUFACTURING: Green chemicals, RE/EE supply chain, cleaner production



AGRICULTURE & FORESTRY: Land mgmt, low carbon and adaptation strategies, biomass, biofuels, EE

RECYCLING & WASTE: Recycling and waste treatment services

Key Achievements:

- Over 122,000 households reached with renewable energy products impacting over 475,000 individuals
- 24 clean energy ecosystems
- Over Ksh 536 million worth of charcoal and kerosene saved through clean cookstoves and solar home systems
- 108,000 metrics tons of Carbon reduced
- Over Ksh 546 million in household savings by switching to clean energy
- Over Ksh 617 million worth of clean energy products distributed
- Over 22,000 trees saved
- 1.2 million trees planted

Social Protection: EGF, utilizing the Equity Group payment systems and in partnership with the Government of Kenya and UN agencies WFP and UNHCR is working to provide social protection payments to people most vulnerable in society.

Key Achievements:

- 19 interventions
- 3 program countries
- 108,000 bank accounts opened
- To date this program has disbursed Shs 62.3 billion to refugees, the elderly and children.

Currently providing services in refugee camps, and informal settlements across Kenya, Rwanda, Uganda and South Sudan.

Monitoring, Evaluation, Reporting and Learning (MERL): This is what makes EGF best in class for social development service delivery and what helps make us better year after year. Our integrated shared values and dedicated focus on improvement for ourselves, our stakeholders, our partners and our beneficiaries allow us to learn and scale efficiently and effectively.

Key Focus:

- Guide the development and implementation of performance monitoring and evaluation plans for all programs.
- Develop a comprehensive M&E system for all EGF programs
- Ensure timely, accurate and relevant data from programs using quantitative and qualitative methods.
- Guide periodic program reviews and evaluations

Additionally, as an organization we actively consider the social and environmental impacts of our activities and are committed to operating sustainably and making a positive contribution beyond our core businesses. We consider social and environment issues to be significant long-term drivers of both financial and nonfinancial value. Under the Equity Group Foundation programs and initiatives, we take a long term view to ensure that we do business in a sustainable and efficient way, and appropriately use our influence to enhance social and environmental outcomes by implementing frameworks for considering Environmental, Social and Governance (ESG) issues in assessing our relationships with customers and suppliers.

The Foundation forges strategic partnerships with development partners, governments, the private sector and local and international organizations to strengthen its work. We are grateful to have the continued support of our dedicated partners, with whom we share a vision that by championing the transformation of lives and livelihoods through the development and implementation of innovative development programs that we can give dignity, expand opportunities for wealth creation and improve the lives of 100m Africans by 2024.

Our Partners:

DIRECTORS

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

Dr James Mwangi
Mary Wamae
Reuben Mbindu (Executive Director)
Zainab Jaffer
Equity Group Holdings Plc

STATEMENT AS TO DISCLOSURE TO THE AUDITOR

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

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

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

TERMS OF APPOINTMENT OF AUDITOR

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

By order of the Board

SECRETARY

____________2020

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company 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 Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining internal control 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 apply them consistently; and

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

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

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

Approved by the board of directors on 6 February 2020 and signed on its behalf by:

Dr James Mwangi **Director**	**Mary Wamae** **Director**

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF EQUITY GROUP FOUNDATION

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Equity Group Foundation (the "Company") set out on pages 14 to 26 which comprise the statement of financial position at 31 December 2019 and the statements of comprehensive income and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Equity Group Foundation at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF EQUITY GROUP FOUNDATION (CONTINUED)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF EQUITY GROUP FOUNDATION (CONTINUED)

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

- 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.

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.

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

In our opinion, the information given in the Director's report on pages 2 to 9 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi

15 April **2020**

FCPA Richard Njoroge, Practising certificate P/1244
Signing partner responsible for the independent audit

Statement of comprehensive income

	Notes	2019 Shs' 000	2018 Shs' 000
Donations income	4	1,351,896	1,241,543
Other income	5	56,330	51,298
		1,408,226	1,292,841
Administration expenses	6	(597)	(597)
Program expenses	7	(1,407,629)	(1,292,244)
		(1,408,226)	(1,292,841)
Surplus before taxation		-	-
Tax expense		-	-
Surplus for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

Statement of financial position

Assets	Notes	2019 Shs' 000	2018 Shs' 000
Current assets			
Bank balance	9	1,193,733	1,112,719
Other receivables	8	33,671	42,178
Total assets		1,227,404	1,154,897
Liabilities			
Current liabilities			
Accruals and other payables	10	13,052	10,730
Due to related party	11(a)	19,067	24,355
Deferred income	4(d)	1,195,285	1,119,812
Total liabilities		1,227,404	1,154,897

The financial statements on pages 14 to 26 were approved for issue by the board of directors on 6 February 2020 and signed on its behalf by:

Dr. James Mwangi
Director

Mary Wamae
Director

Statement of cash flows

	Notes	2019 Shs' 000	2018 Shs' 000
Cash flows from operating activities			
Surplus before taxation		-	-
Changes in working capital			
Other receivables		8,507	437,324
Accruals and other payables		2,322	(36,720)
Due to related party		(5,288)	(422,655)
Deferred income		75,473	88,106
Net cash generated from operating activities		81,014	66,055
Net increase in cash and cash equivalents		81,014	66,055
Cash and cash equivalents at start of year		1,112,719	1,046,664
Cash and cash equivalents at end of year	9	1,193,733	1,112,719

Notes

1 General information

Equity Group Foundation, a not for profit implementing foundation incorporated under the Kenyan Companies Act, is a charitable organization set up to provide a platform to development partners, government, the private sector as well as local and international organizations for the implementation of high impact development programs. The Foundation is set up as a company limited by guarantee. The address of its registered office is as follows:

Equity Centre
Hospital Road, Upper Hill
P.O. Box 75104 - 00200
Nairobi

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. There were no areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the Company for the first time for the financial year beginning 1 January 2019. They did not have a significant impact on the Company.

- IFRS 16 Leases
- Prepayment features with negative compensation – Amendments to IFRS 9, Financial Instruments
- Annual improvements to IFRS standards 2016 – 2017 Cycle
- Plan amendment, curtailment or settlement – Amendments to IAS 19, Employee Benefits
- Clarification of accounting for uncertainty over income tax treatments – IFRIC 23, Uncertainty over Income Tax Treatments

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting period ends and have not been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Financial instruments

Initial recognition

Financial instruments are recognised when, and only when, the Company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Company commits itself to the purchase or sale.

Classification

The Company classifies its financial instruments at amortised cost; that is, as financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost.

The following financial instruments held during the year were classified at amortised cost;

- demand and term deposits with banking institutions / bank balance
- other receivables
- accruals and other payables; and
- amounts due to related party

Initial measurement

On initial recognition:

i. Grant receivables are measured at their transaction price.
ii. All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

Subsequent measurement

Cash and bank balances, other receivables, accruals and other payables and amounts due to related party after initial recognition are measured at amortised cost.

Interest income and exchange gains and losses on monetary items are recognised in profit or loss.

Impairment

The Company recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses for grant receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a grant receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Impairment (continued)

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, 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.

Presentation

All financial assets are classified as non-current except, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except, those expected to be settled in the Company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the Company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Company has transferred substantially all risks and rewards of ownership, or when the Company has no reasonable expectations of recovering the asset.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Revenue recognition

The Company receives revenue from donors. Revenue is recognised as follows:

(i) Income comprise of contributions (donation) from various donors, to be utilized on the various activities. Donation income is earned as the performance obligations are met; that is through compliance with their conditions and meeting the envisaged obligations. Donation income is recognized in the period in which the Company has incurred project expenses, and has received the related funding from the donor, or has received an unconditional commitment to receive the donor funding.

(ii) Interest income for all interest bearing financial instruments is recognised in the profit or loss using the effective interest method.

(d) Foreign Currency translation

(a) Functional and Presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency').

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

The financial statements are presented in Kenya Shillings in thousands (Shs) which is the Foundation's Functional Currency.

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income or expenses'.

(e) Deferred income

Deferred income include contributions received from donors, which have not yet been used to fund program expenses, mainly in cases where the funded projects relate to subsequent project years.

(f) Grant and interest receivable

Grant receivables are amounts due from donors for project expenses incurred for which the funding has not yet been received. If payment is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Grant and interest receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. The provision is measured at an amount equal to the lifetime expected credit losses for the grant receivables.

(g) Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Income tax

Equity Group Foundation is exempt from taxation under paragraph 10 to the 1st schedule of Income Tax Act Cap. 470 and is generally not subject to corporate tax.

3 Financial risk management objectives and policies

The Foundation's principal financial instruments comprise bank balances with and amounts due to Equity Bank (Kenya) Limited, a related party. These instruments arise directly from its operations. The Foundation activities do not expose it to significant financial risks, including credit risk, foreign currency exchange rates risk, liquidity risk and interest rates risk. Risk management is carried out by management under policies approved by the Board of Directors. The Foundation maintains a conservative policy regarding currency and interest rate risks and does not engage in speculation in the markets. In addition, the Foundation does not speculate or trade in derivative financial instruments.

Interest rate risk

The Foundation's objective with respect to bank balances is to minimize credit risk by placing the balances with a reputable bank (Equity Bank (Kenya) Limited in this case) rather than maximize interest income.

The Foundation maintains interest bearing accounts with interest deployed under the respective projects. As a result the Foundation is not exposed to significant interest rate risk.

Liquidity risk

Liquidity risk concerns the ability of the Foundation to fulfill its financial obligations as they become due. The Foundation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation.

The table below analyses the Foundation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	1-12 months Shs' 000	>12 months Shs' 000	Total Shs' 000
31 December 2019			
Accruals and other payables (Note 10)	13,052	-	13,052
Due to related party (Note 11 (a))	19,067	-	19,067
	32,119	-	32,119
31 December 2018			
Accruals and other payables (Note 10)	10,730	-	10,730
Due to related party (Note 11 (a))	24,355	-	24,355
	35,085	-	35,085

Notes (continued)

3 Financial risk management objectives and policies (continued)

Foreign currency exchange risk

The Foundation's Functional currency is the Kenya Shilling and any foreign currency transactions are converted into the Functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are also revalued to reflect current market value and gains or losses resulting from these transactions are recognized in the income and expenditure account. Strengthening or weakening of foreign denominated balances would not have any impact on the Foundation's performance. There were no material foreign denominated currencies as at 31 December 2019.

Credit risk

Credit risk is managed by the Foundation's finance officer. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as donations receivables. The finance officer monitors the donations receivable and gives the Board of Directors an update of the status on a regular basis.

The amount that best represents the Foundation's maximum exposure to credit risk is made up as follows:

	2019 Shs' 000	2018 Shs' 000
Bank balance (Note 9)	1,193,733	1,112,719
Other receivables (Note 8)	33,671	42,178
	1,227,404	1,154,897

None of the above assets are either past due or impaired. No provision has been made on the above financial assets.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Foundation's processes, personnel, technology and infrastructure and from external factors other than credit, interest rate, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Foundation's operations and are faced by all business units. The Foundation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Foundation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

Notes (continued)

4 Donations income	**2019 Shs' 000**	**2018 Shs' 000**
(a) Deferred income brought forward:		
MasterCard Foundation – Education	691,645	923,285
KFW – Education	315,594	27,625
EKN – Agriculture	-	29,794
Norfund – Entrepreneurship	-	7,529
Others	112,573	42,473
	1,119,812	1,031,706
(b) Donor funds received during the year:		
MasterCard Foundation – Education	438,157	572,889
EBKL – Education	101,978	560,503
EBKL – Health	-	15,781
KFW – Education	-	430,856
Norad – Agriculture	56,464	117,087
USAID – Health	-	28,445
Norfund – Entrepreneurship	9,864	19,944
USAID – Education	1,505	284
MasterCard Foundation - Entrepreneurship	800,938	-
Others	22,478	34,336
	1,431,384	1,780,125
Grant receivable		
At 1 January	22,284	457,874
(c) Movement in the year	(5,769)	(435,590)
At 31 December	16,515	22,284
(d) Deferred income carried forward		
MasterCard Foundation – Education	(277,653)	(691,645)
KFW – Education	(254,108)	(315,594)
MasterCard Foundation – Entrepreneurship	(573,542)	-
Norad – Agriculture	(64,683)	(81,221)
Others	(25,299)	(31,352)
	(1,195,285)	(1,119,812)
(e) Transfer to payable		
USAID – Education	113	2,708
EKN – Agriculture	-	(15,952)
Others	1,641	(1,642)
	1,754	(14,886)
Donations income for the year [(a) + (b) – (c) – (d) + (e)]	1,351,896	1,241,544

Notes (continued)

4 Donations income (continued)

The deferred income relates to income received from donors in the year for program activities falling due in the next program year for cash flow purposes.

Transfer to payable relates to donations that are supposed to be remitted back to the donors.

(f) Utilisation of donor funds in specific projects

	2019 Shs' 000	2018 Shs' 000
MasterCard Foundation – Education	876,856	852,369
MasterCard Foundation – Entrepreneurship	239,734	-
EBKL – Education	102,172	107,170
KFW – Education	77,425	142,886
Norad – Agriculture	75,361	36,752
MoE - Education	4,258	-
Norfund – Entrepreneurship	125	34,909
USAID – Health	-	29,550
EBKL – Health	-	15,788
EKN – Agriculture	-	13,935
USAID – Education	-	4,610
Others	32,295	54,872
	1,408,226	1,292,841

5 Other income

Interest income	56,330	51,298

6 Administration expenses

Audit fees	500	500
General expenses	97	97
	597	597

7 Program expenses

Education Scholarship expenses	1,066,300	1,123,257
Entrepreneurship training	255,824	64,589
Agriculture	85,505	59,059
Health	-	45,339
	1,407,629	1,292,244

Notes (continued)

8 Other receivables

	2019 Shs' 000	2018 Shs' 000
Grant receivable	16,514	22,284
Interest receivable	17,157	19,894
	33,671	42,178

9 Bank balance

	2019 Shs' 000	2018 Shs' 000
Cash at bank	1,193,733	1,112,719

Cash at bank reflects amounts that are in the process of being deployed to various programs at the reporting date.

10 Accruals and other payables

	2019 Shs' 000	2018 Shs' 000
Due to FSD	3,979	3,999
Due to other partners	3,100	3,083
Accrued expenses	5,973	3,648
	13,052	10,730

Notes (continued)

11 Related party transactions

The Foundation is a company limited by guarantee. The programs of the Foundation are primarily funded by donors and executed in line with donor conditions. Transactions with donors and donor balances are disclosed in note 4.

The Foundation utilises Equity Group Holding Plc's extensive branch network and staff in driving the achievement of the goals/ activities of the Foundation in communities.

The following table shows the companies related to the Foundation through Equity Group Holdings Plc (a director) at 31 December 2019:

	Nature of relationship	Country
Equity Bank (Uganda) Limited	Common directorship	Uganda
Equity Insurance Agency Limited	Common directorship	Kenya
Equity Bank (South Sudan) Limited	Common directorship	South Sudan
Equity Nominees Limited	Common directorship	Kenya
Finserve Africa Limited	Common directorship	Kenya
Equity Investment Bank Limited	Common directorship	Kenya
Equity Investment Services Limited	Common directorship	Kenya
Equity Bank (Rwanda) Limited	Common directorship	Rwanda
Equity Bank (Tanzania) Limited	Common directorship	Tanzania
Equity Bank (Kenya) Limited	Common directorship	Kenya
Equity Bank (DRC) Limited	Common directorship	DRC Congo
Equity Consulting Group Limited	Common directorship	Kenya

Other transactions with related parties are:

(a) Amount due to related party

	2019 Shs' 000	2018 Shs' 000
Equity Bank (Kenya) Limited	19,067	24,355

(b) Key management compensation

Key management includes directors (executive and non-executive) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2019 Shs'000	2018 Shs'000
Salaries and other short-term employment benefits	72,047	57,035

(c) Directors' remuneration	-	-

12 Events after the reporting date

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

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Glossary Terms

EBKL	Equity Bank Kenya Limited
EKN	Embassy of the Kingdom of Netherlands
FSD	Financial Sector Deepening
KFW	Kreditanstalt für Wiederaufbau (German Development Bank)
MoE	Ministry of Education
Norfund	Norwegian Investment Fund for Developing Countries
Norad	Norwegian Agency for Development Cooperation
USAID	United States Agency for International Development