HF GROUP
Dreams Made Possible

ANNUAL REPORT 2016

GROWTH THROUGH ACCESSIBILITY

Mission and Vision

Vision

To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya.

Mission

We will be the leading integrated solutions enabler for the property industry.

We will offer innovative products and services, delivered under one roof by exceptionally committed people to enhance shareholder value.

We will operate across the property value-chain as suppliers and financiers that offer unique solutions to all while being environmentally responsible.

Komarock Phase 5B

Komarock Phase 5B is a wholly owned HFDI development, consisting of 115 – 4 bedroom maisonettes, located in Komarock area of Nairobi. These spacious homes are built with quality in mind and offer a great opportunity for home ownership.

CONTENTS

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Steve O. Mainda	Chairman
Frank Ireri	Group Managing Director
Benson Wairegi	
Peter K. Munga	
Adan D. Mohamed	
Constance Gakonyo	
Kaushik Manek	
Felister Kembi	Appointed 26 September 2016
Gladys Karuri	Appointed 4 November 2016

COMPANY SECRETARY

Regina Anyika
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi, GPO

REGISTERED OFFICE

Plot No. LR 209/9054
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi, GPO

SHARE REGISTRAR

Regina Anyika, CPS (K)
HF Group Limited
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi, GPO

BANKERS

HFC Limited
Rehani House, Kenyatta Avenue
P.O. Box 30088
00100 Nairobi, GPO

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612
00100 Nairobi, GPO

PRINCIPAL LEGAL ADVISORS

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680
00200 Nairobi, City Square

SUBSIDIARIES

HFC Limited
HF Development and Investment Limited
First Permanent (East Africa) Limited
HF Insurance Agency Limited
HF Foundation Limited

HF GROUP LIMITED OVERVIEW

2016 Highlights

Growth of Full Service Banking

- Disbursements – KES.13.27b
- Loan applications – KES. 13.96b
- Launch of 7 new branches bringing branch network to 25
- Launch of new deposit products targeting individuals, micro entreprenuers and SMEs
- Micro business introduced targeting micro - SMEs
- Loan book growth – 3.54%

Investment in Technology

- Successful roll – out of the new core banking system in January 2016

Awards

- 1st position – Bank and Mortgage Financier's Category, Homes Expo

Property Development

- Ground breaking for phase 1 of Clay City (560 Apartments)
- Completion of Kahawa Downs - 220 apartments along Thika Super Highway

Bancassurance

- Launch of Medical Insurance Product "AfyaMed" in conjuction with Britam

HF Group

HF Group is an integrated property and financial solutions provider that is registered as a non – operating holding company (under the Banking Act Cap.488) and regulated by the Central Bank of Kenya (CBK). The non – operating holding company was incorporated with effect from 3 August 2015 and oversees the operations of the Group subsidiaries which include HFC, HF Insurance Agency, HF Development and Investment (HFDI) and the HF Foundation.

The Group structure was set up to enhance corporate governance, provide oversight in management of the subsidiaries and also ensure optimal growth at both Group and subsidiary levels. Our drive as a Group is to put customers at the centre of everything we do and deliver solutions which make their dreams possible.

The Group has a total equity of 349,381,667 shares and is listed in the Nairobi Securities Exchange (NSE).

HF Group has four operational subsidiaries:

- HFC – licensed to carry out the business of mortgage finance as well as banking services under the Banking Act
- HF Development and Investment – formerly known as Kenya Building Society Limited undertakes real estate development.
- HF Insurance Agency – bancassurance solutions.
- HF Foundation - the Group's social investment arm.

HF GROUP LIMITED OVERVIEW (CONTINUED)

HF Group History and Key Milestones

1965-1991

- The Company was incorporated in 1965 with the funding investors being Commonwealth Development Corporation and the Government of Kenya (GoK) with a respective shareholding of 60% and 40% in the Company
- In 1970, GoK increased its stake in the Company to 50% becoming an equal shareholder with CDC

1992-2002

- In 1992, Housing Finance was listed on the NSE with CDC and GoK retaining a shareholding of 30.4% each and Kenyan individuals and institutional investors taking up the balance 39.2%
- In 1999, GoK reduced the stake in the company to 7.3% with the Kenyan individual and institutional investors taking up the balance of 62.3%
- In 2002, the Company rebranded its trading name to Housing Finance

2003-2011

- In 2007, the Company welcomed Equity Bank Limited and Britam Investments Company (Kenya) Limited as anchor shareholders as CDC sold off its entire stake
- In 2008, Housing Finance successfully raised KES. 2.3b by way of a rights issue
- In 2010, Housing Finance issued a KES. 10b Medium Term Note (MTN) Programme successfully raising KES. 7b in Tranche I

2012-2014

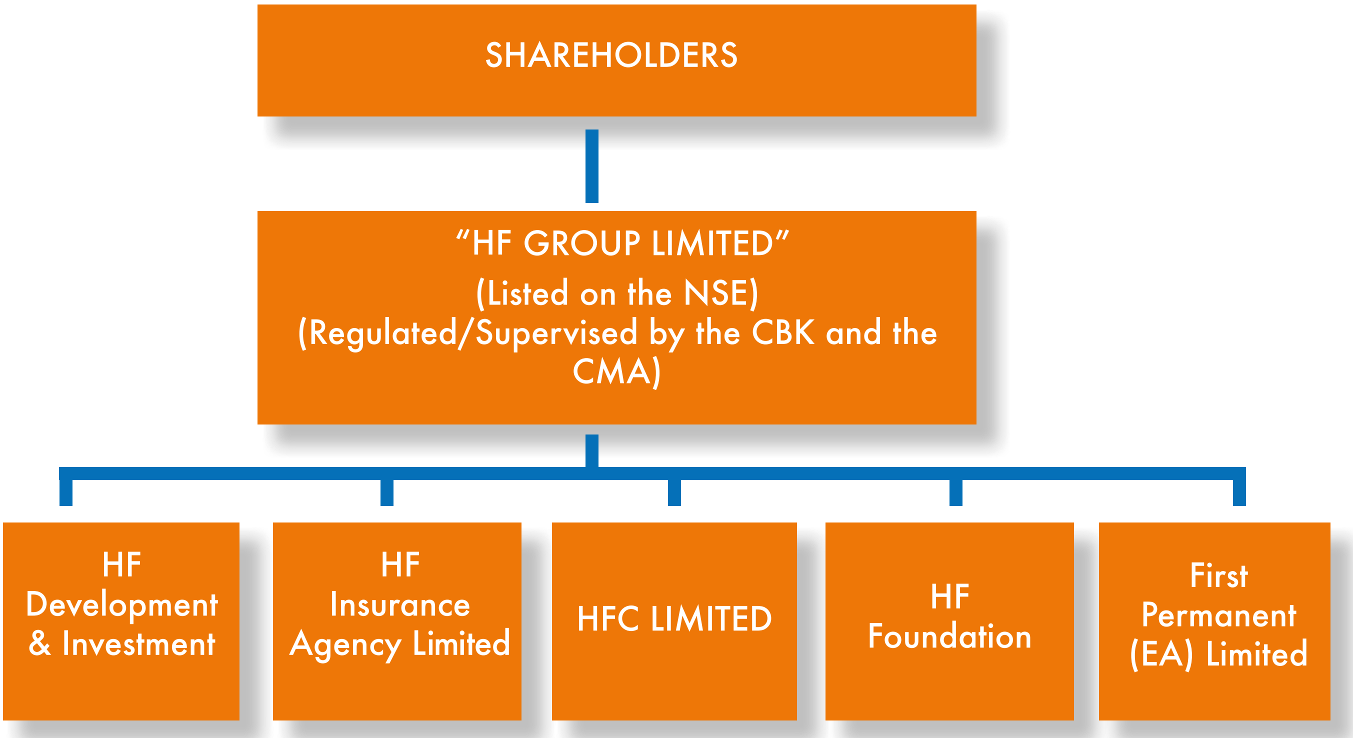
- In 2012, Housing Finance issued a Tranche II of the MTN successfully raising KES. 3b.
- In 2013, Housing Finance received CMA approval to issue KES. 20b Medium Term Note
- On 31 December 2014, Britam Investments Company (Kenya) Limited 'Britam' completed the KES. 2.7b acquisition of Equity Bank's shares in Housing Finance. This transaction raised Britam's direct and indirect shareholding in Housing Finance to 46.03%

2015

- HF rebrands to HF Group
- Creation of HF Group which is a non-operating holding company
- Rights Issue raising KES. 3.5b

HF GROUP LIMITED OVERVIEW (CONTINUED)

The Group Structure



Our Values and Behaviour

Value	**Behaviour**
Teamwork	I am committed to building high performing teams that work together towards achieving a common goal.
Respect	I will treat others as I want to be treated.
Innovation	I appreciate current and emerging trends by inspiring creativity, risk taking and genuinely learning from failures.
Passion	I commit to uphold the brand.
Leadership	I set the pace by practicing participatory leadership, being believable and positively influencing colleagues and customers in a fair manner.
Excellence	I commit to diligently and consistently surpass ordinary standards and deliver outstanding services in a timely manner.
Boldness	I am confident, courageous, enterprising and take calculated risks in execution of my duties.

HFC Full Service Banking Strategy

In 2016, HFC introduced a host of new banking solutions for individuals, SMEs and micro segment, giving our customers access to a wide range of solutions. We continue to expand our offering to meet our customers' evolving needs.

We have come closer to our customers by expanding our branch network. With 7 new branches opened in 2016, we now have a total of 25 branches across Kenya. This is in addition to the alternative channels that we are introducing, with the aim of offering our customers a seamless experience.

BOARD OF DIRECTORS

Steve Mainda, EBS Chairman	Frank Ireri Group Managing Director	Felister Kembi	Peter Munga

BOARD OF DIRECTORS

Adan Daud Mohamed | Constance Gakonyo | Kaushik Manek | Gladys Karuri | Benson Wairegi

NOTICE OF ANNUAL GENERAL MEETING

To the Shareholders of **HF GROUP LIMITED (FORMERLY HOUSING FINANCE COMPANY OF KENYA LIMITED)**

NOTICE IS HEREBY GIVEN that the 51st Annual General Meeting of the Company will be held at **Nairobi** on **Friday 21st April, 2017** at the **Kenyatta International Convention Centre (KICC) AMPHITHEATRE** at **11.00 am** to conduct the following business:

1 To table the proxies and note the presence of a quorum.

2 To read the notice convening the meeting.

3 To receive and if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2016, together with the Chairman's, the Directors' and Auditor's Reports thereon.

4 To declare dividend of KES. 0.50 per share for the financial year ended 31 December 2016 and approve the closure of the Register of Members at the close of business on 5th May 2017.

5 To elect Directors:

a) Dr. Benson Wairegi retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, offers himself for re-election.

b) Mr. Steve Omenge Mainda retires by rotation in accordance with Article 105 of the Company's Articles of Association, and having attained the age of seventy years further retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible, offers himself for re-election.

c) Dr. Peter Kahara Munga retires by rotation in accordance with Article 105 of the Company's Articles of Association, and having attained the age of seventy years further retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible, offers himself for re-election.

d) Ms. Felister Kembi retires in accordance with Article 104 of the Company's Articles of Association and being eligible, offers herself for re-election.

e) Ms. Gladys Karuri retires in accordance with Article 104 of the Company's Articles of Association and being eligible, offers herself for re-election.

6. To approve the Directors' Remuneration.

7. To note that the auditors, KPMG Kenya, will continue in office in accordance with Section 721 (2) and 724 of the Companies Act, No. 17 of 2015 and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

8. To consider and if thought fit, to pass the following resolution as a Special Resolution:-
"That the name of the Company be and is hereby changed from "HF Group Limited" to "HF Group Plc" with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies".

BY ORDER OF THE BOARD
Regina Anyika
Company Secretary
P.O. Box 30088, GPO 00100
NAIROBI
Date: 27th March 2017

NOTICE OF ANNUAL GENERAL MEETING (Continued)

NB:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, HF Group Limited, Rehani House, Kenyatta Avenue, P.O. Box 30088, GPO 00100, Nairobi, to arrive not later than 11 AM on 19th April 2017.

   If the appointer is a corporation or Government office, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.

2. A copy of this notice, the proxy, the entire Annual Report & Accounts may be viewed on the Company's website at www.hfgroup.co.ke or a printed copy may be obtained from the Registered Office of the Company, Rehani House, Kenyatta Avenue/Koinange Street, P.O. Box 30088-00100 GPO, and Nairobi and from all our registered Branches countrywide.

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA

Kwa wanahisa wa **HF GROUP LIMITED (AMBAYO ZAMANI ILIKUWA IKIJULIKANA KAMA HOUSING FINANCE COMPANY OF KENYA LIMITED)**

NOTISI INATOLEWA HAPA KWAMBA mkutano wa 51 wa pamoja wa Mwaka wa kampuni utafanyika mjini **Nairobi siku ya Ijumaa Aprili 21, 2017** katika Jumba la mikutano ya **Kimataifa Kenyatta International Convention Centre (KICC) ukumbi wa AMPHITHEATRE** kuanzia saa tano asubuhi ili kuangazia maswala yafuatayo ya kibiashara:

1 Kuwatambua mawakala na kuangazia akida ya watu waliohudhuria

2 Kusoma notisi ya kuitishwa kwa mkutano

3 Kupokea na endapo itaidhinishwa, kupitisha mizania iliyokaguliwa na hesabu za pesa kwa kipindi cha Mwaka uliomalizika Desemba 31, 2016 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa.

4 Kupitisha malipo ya mgawo wa faida ya senti Ksh. 0.50 kwa kila hisa kwa kipindi cha biashara kilichomalizika Desemba 31, 2016 na kuidhinisha kufungwa kwa rejista ya wanachama ifikiapo Mei 5, 2017.

5 Kuwachagua wakurugenzi:

a) Dkt. Benson Wairegi anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.

b) Bw. Steve Omenge Mainda anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na baada ya kufikisha umri wa miaka 70 anastaafu zaidi kwa mujibu wa kanuni za maadili ya usimamizi wa mashirika ya utoaji wa dhamana za hisa kwa umma ya mwaka 2015 na kwa kuwa anastahili anajitokeza ili kuchaguliwa tena.

c) Dkt. Peter Kahara Munga anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na baada ya kufikisha umri wa miaka 70 anastaafu zaidi kwa mujibu wa kanuni za maadili ya usimamizi wa mashirika ya utoaji wa dhamana za hisa kwa umma ya mwaka 2015 na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.

d) Bi. Felister Kembi anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za makampuni na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.

e) Bi. Gladys Karuri anastaafu kwa zamu kwa mujibu wa kifungu nambari 104 cha sheria za makampuni na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.

6 Kuidhinisha marupurupu ya wakurugenzi

7 Kutambua kwamba KPMG Kenya wataendelea mbele na jukumu yao kwa mujibu wa sehemu ya 721(2) na 724 ya sheria za makampuni nambari 17 ya 2015 na kuwaidhinisha wakurugenzi kupitisha malipo yao.

SHUGHULI MAALUMU

8) Kuzingatia na endapo itaonekana kuwa sawa, kupitisha azimio lifuatalo kama azimio maalumu:-
'' Kwamba jina la Kampuni libatilishwe kutoka '' HF Group Limited'' na kuwa '' HF Group Plc'' kuanzia tarehe iliyoandikwa kupitia hati ya mabadiliko ya jina na msajili wa makampuni''

KWA AMRI YA HALAMSHAURI
Regina Anyika
Katibu wa Kampuni
Slp 30088, GPO 00100
NAIROBI

Tarehe: Machi 27, 2017.

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA (Ya endelea)

Muhimu:

1. Mwanachama aliyetimiza masharti ya kuhudhuria na kupiga kura wakati wa mkutano uliotajwa hapo juu anaweza kumteua wakala kuhudhuria na kupiga kura kwa niaba yake . Si lazima kwa wakala huyo kuwa mwanachama. Fomu ya uwakala imeambatanishwa hapa na inaweza kurejeshwa kwa Registrar, HF Group Limited , Rehani House, Kenyatta Avenue Slp 30088 GPO 00100 Nairobi na kupokelewa kabla ya saa Tano Asubuhi Aprili 19, 2017.

   Endapo wakala aliyeteuliwa ni shirika au ofisi ya serikali, stakabadhi iliyomteua iwe imepigwa mhuri na kutiwa sahihi na Afisa aliyeidhinishwa na shirika au ofisi ya Serikali.

2. Nakala ya notisi hii, wakala, ripoti kamili ya mwaka na hesabu za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.hfgroup.co.ke au nakala iliyochapishwa inaweza pia kupatikana kupitia ofisi za kampuni zilizosajiliwa katika jumba la Rehani House, Kenyatta Avenue/ Koinange Street, Slp 30088-00100 GPO na Nairobi na pia kupitia matawi yetu yaliyosajiliwa kote nchini.

Komarock Heights

Komarock Heights is a wholly owned HFDI development. It is a modern estate with all the amenities to support the comfort and lifestyle of its residents. Comprising 1,272 beautifully designed apartments nestled within Komarock Estate, the development will be implemented in 3 phases. Phase 1 whose construction is almost complete, comprises of 480, 2 and 3 bedroom apartments in 20 blocks.

CHAIRMAN'S STATEMENT

Steve Omenge Mainda, **EBS**
Chairman

Dear Shareholders,

It gives me great pleasure to welcome you all to the 51st Annual General Meeting of HF Group and to present before you the Audited Financial Statements and Annual Report for the year ended 31 December 2016. On behalf of the Board of Directors, I hereby extend a very warm greeting towards all of you present in this meeting.

I wish to review the business environment and significant developments that impacted on the performance of HF Group within the operating environment as well as the future outlook.

Economic Overview

Kenya's economy remained on a growth trajectory in 2016 with projected growth estimated at 5.9%. The performance of Kenya's economy was largely influenced by internal factors. The long rains were depressed in some parts of the country but were sufficient and well spread in the main food growing regions. Against this background, the agricultural sector's output recorded a moderately positive growth.

Similarly, the manufacturing sector was supported by lower fuel prices and improved supply of electricity as well as sustained delivery of inputs from the agriculture sector.

The construction industry maintained an increased role in the creation of value addition due to the ongoing public infrastructure development and continued investment in fixed assets by the private sector.

The Kenya Shilling weakened against its major trading currencies similar to all other key macroeconomic indicators. The financial intermediation sector remained robust despite the takeover of three commercial banks by the Central Bank of Kenya due to financial challenges.

Members of Parliament passed a bill to amend the Banking Act by placing restrictions on the rate which banks offer on loans and deposits. This amendment put a cap on lending rates at 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR. The Business environment remains a challenge as a result of the introduction of this new interest rate regime in the banking sector.

HF Group announced a new strategy which charts the course for the next five years and we embarked decisively on implementing it. All the Group's operations are now driven by this new strategy and clear targets have been set.

Business Strategy

In 2016, HF Group begun implementing its 2016-2020 strategy, dubbed Vision 2020, which will chart our course for the next five years. This new strategy focuses on unlocking the potential of our subsidiaries, namely HFC, HF Development and Investment (HFDI), HF Insurance Agency and HF Foundation.

The six key strategic thrusts include: focus on property financing; developing full service banking; scaling up HFDI property development and affordable housing; enhancing corporate banking proposition and developing bancassurance capability through the insurance agency.

Clear targets and measurement criteria have been put in place to reinforce performance and ensure that all operations are focused towards achieving the strategy. Additionally, the strategy is heavily dependent on people, partnerships and technology as the key drivers of its successful execution.

Community Partnership

Since HF Group's establishment 51 years ago, the goal has been to develop sound solutions for the property ecosystem. The conviction that a sustainable housing and construction sector is both possible and necessary has always been a major driver of innovation at HF Group. Over the years, gaps have been identified in the availability of skilled artisans within the construction industry hence the birth of the HF Foundation in 2012; HF Foundation's core pillars are a direct response to the challenges in the building and construction industry and a significant contributor to the youth unemployment challenge.

Through the Foundation, HF Group aims to deliver, facilitate and catalyse industry relevant and sustainable practical skills required by the building and construction industry through the creation of an "Army of One Million Artisans". To this end, the Foundation in 2016 facilitated skills enhancement programs for hundreds of artisans trained on HFDI sites (Komarock Heights and Richland) as well as partner sites. In the same period, the HF Foundation steered the process of developing 10 occupational standards which were handed over to the Curriculum Development Accreditation and Certification Council (CDACC) on 26th May, 2016.

CHAIRMAN'S STATEMENT

Investment in Technology

The Group rolled out a new core banking system in January, 2016, whose objective is to support business growth by ensuring delivery of an excellent customer experience; excellent staff experience – work life balance; great return on investment for shareholders and other stakeholders in the ecosystem. The Group chose a best of breed solution that would optimally support the business growth.

At the onset of the project, the HF Group conducted an Organizational Change Risk and Readiness Assessment (OCRRA) to measure the state of preparedness and readiness to accept change. In addition an organisational change programme that was put in place coupled with a rigorous staff training programme ensured a successful roll over to this new system.

Proposed Dividends

Factoring the business performance in 2016, the Board of Directors in a meeting held on 21st February, 2017 proposed a full and final dividend of KES. 0.50 cents per share.

Future Outlook

According to the World Bank, Kenya's economy is expected to expand in 2017, helped by stable oil prices, improved agricultural output, supportive monetary policy and ongoing infrastructure investments. However, growth could be held back by domestic factors related to the country's next general election, scheduled for August 2017.

Despite the challenging economic and operating environment, I am optimistic about the future of the Group. As a Board, we will continue to provide the required oversight and support to ensure successful performance; the board is committed to supporting the management to deliver on the Group strategy and realize full value for all stakeholders.

Acknowledgement

On behalf of the Board of Directors, I wish to express gratitude to our esteemed customers, shareholders and other stakeholders for the confidence they have placed in the Company, whilst appreciating all staff and management for their demonstrated professionalism, commitment and zeal towards building an enduring institution. To my colleagues on the Board, I want to thank you for the oneness you have reposed in the business. I pledge that we will continue to add shareholders' value through the execution of prudent and responsible business strategies while ensuring that we contribute towards the achievement of national priorities.

Steve O. Mainda, EBS
Group Chairman

Date: 27th February 2017

TAARIFA KUTOKA KWA MWENYEKITI

Kwa Wanahisa,

Ni fahari kwangu kuwakaribisha nyote kwenye Mkutano wa 51 wa pamoja wa Mwaka wa HF Group na pia kuwaletea taarifa za matumizi ya pesa zilizofanyiwa ukaguzi na ripoti ya mwaka uliomalizika wa 2016. Kwa niaba ya Halmashauri ya Wakurugenzi , natoa salamu za dhati kwenu nyote mliohudhuria mkutano huu.

Ningependa kutoa mtazamo wa mazingira ya biashara na maendeleo muhimu yaliyoathiri matokeo ya HF Group katika mazingira ya utekelezaji shughuli pamoja na mtazamo wa siku za usoni.

Mtazamo wa Kiuchumi

Uchumi wa taifa la Kenya ulisalia katika ukuaji uliotarajiwa mwaka 2016 wa kiwango kilichokadiriwa cha asilimia 5.9%. Matokeo ya ukuaji wa uchumi wa Kenya yalichangiwa pakubwa na maswala ya humu nchini. Mvua ya muda mrefu ilipungua maeneo kadhaa ya nchi lakini ilikuwa ya kuridhisha na kutawanyika vyema maeneo yanayokuzwa mimea ya chakula. Kufungamana na hili, matokeo katika sekta ya kilimo yalisajili kiwango bora cha kadri cha ukuaji.

Vile vile, sekta ya utengenezaji bidhaa ilipata usaidizi kutokana na bei za chini za mafuta na uimarishaji wa usambazaji wa nguvu za umeme pamoja na udumishaji wa uwasilishaji wa pembejeo kutoka sekta ya kilimo.

Sekta ya biashara ya ujenzi ilidumisha wajibu wake wa kubuni thamani za ziada kutokana na ustawi unaoendelea sasa wa maendeleo ya mundo msingi na kuendelea kuwekeza kwenye raslimali za kudumu katika sekta za kibinafsi.

Shilingi ya Kenya ilikuwa dhaifu dhidi ya sarafu nyingine za kibiashara sawa na viashirio vingine vya chumi ndogo. Sekta patanishi ya kati ilisalia kuwa imara licha ya kutwaaliwa kwa benki tatu za kibiashara na benki kuu ya Kenya kutokana na changamoto za kifedha.

Wabunge walipitisha mswada kufanyia marekebisho sheria ya mabenki kwa kuweka vikwazo kwa viwango vinavyotozwa mikopo na akiba. Mabadiliko haya yanaweka vikwazo kwa viwango vya ukopaji hadi asilimia 4% zaidi ya kiwango cha benki kuu ya taifa (CBR) na viwango vya chini kwa akiba hadi asilimia 70% ya CBR. Mazingira ya utekelezaji biashara bado yana changamoto kutokana na kuingizwa kwa kiwango hiki kipya cha riba katika sekta ya benki.

HF Group ilitangaza mkakati mpya ambao unaelezea mkondo wa miaka 5 ijayo na tulianza hatua za kuuzindua. Kwa sasa, shughuli zote za kundi zinaendeshwa chini ya mkakati huu mpya huku malengo wazi yakiwa yamewekwa.

Mkakati wa Biashara

Mwaka 2016, HF Group ilianza uzinduzi wa mkakati wake wa mwaka 2016-2020 unajulikana kama ''vision 2020'' ambao utatoa mwelekeo wa mkondo wetu kwa miaka tano ijayo. Mkakati huu mpya unaangazia kufungua manufaa ya biashara tanzu HFC, HF Development na Investment (HFDI), HF Insurance Agency na HF Foundation. Maeneo 6 muhimu ya mkakati yanahusu: kuangazia ufadhili wa raslimali, kubuni huduma kamili za benki; kuinua ustawishaji wa raslimali za HF na makao nafuu; kuimarisha nafasi ya benki kwa mashirika na kubuni uwezo wa huduma za bima kupitia wakala.

Mbinu dhahiri na vigezo zimewekwa kuimarisha matokeo na kuhakikisha kwamba shughuli zote zimeelekezwa ili kufanikisha mkakati. Zaidi ya hayo, mkakati huu unategemea pakubwa watu, ushirikiano na teknolojia kama mbinu muhimu za kufanikisha matumizi yake.

TAARIFA KUTOKA KWA MWENYEKITI

Ushirikiano na Jamii

Tangu HF ianzishwe miaka 51 iliyopita, lengo lake limekuwa ni kutafuta suluhu thabiti la mfumo ekelojia wa raslimali Thibitisho kwamba kuna uwezekano wa kuwepo kwa sekta ya makao na ujenzi, daima limekuwa kigezo kikuu cha ubunifu katika HF Group. Kwa muda wa miaka mingi, pengo litambuliwa la upatikanaji wa mafundi waliohitimu katika sekta ya ujenzi hivyo kupekelea kubuniwa kwa wakfu wa HF Foundation mwaka 2012. Lengo kuu la HF Foundation ni kutoa suluhu kwa changamoto zilizoko kwenye sekta ya ujenzi na mchangiaji mkuu wa mchakato wa uzalishaji wa nafasi za kazi miongoni mwa vijana

Kupitia wakfu wa HF Foundation, HF Group inalenga kuzalisha, kusimamia na kuchochea sekta husika kwa taaluma zinazohitajika katika ukuaji wa sekta ya nyumba na ujenzi kwa kubuni mafundi milioni moja. Kufikia sasa, mnamo mwaka 2016, wakfu huu ulisimamia mpango wa kuimarisha taaluma kwa mamia ya mafundi waliopokea mafunzo maeneo ya HFDI (Komarock Heights and Richland) pamoja na maeneo tunayoshirikiana. Wakati wa kipindi sawa, HF Foundation ilisimamia hatua za kubuni viwango kumi ambavyo vilitolewa kwa Curriculum Development Accreditation and Certification Council (CDACC) mnamo Mei 26, 2016.

Uwekezaji kwenye Teknolojia

Kundi lilianzisha mfumo mpya muhimu wa benki mwaka 2016 ambao malengo yake ni kusaidia ukuaji wa biashara kwa kuhakikisha utoaji wa huduma za hali ya juu kwa wateja; utenda kazi bora wa wafanyakazi-usawazishaji sawa wa maisha ya kazi; kuzalisha mapato makubwa kwa wanahisa na washika dau wengine kwenye mfumo mzima wa ekelojia. Kundi lilichagua mbinu bora ambayo ingesaidia ukuaji wa biashara.

Wakati wa kuanzishwa kwa mradi, HF Group ilifanya zoezi kutathmini athari za mabadiliko jinsi ya na kujihami (Organizatioal Change Risk & Readiness Assessment- OCRRA) kupima uwezo wake wa kujiandaa na kujiweka tayari kukabiliana na mabadiliko. Licha ya hayo, mpango wa mabadiliko ya mpangilio ambao ulikuwa umewekwa na ulioandamana na mipango mbali mbali ya utoaji mafunzo kwa wafanyakazi ulihakikisha kuzinduliwa kikamilifu kwa mfumo huu.

Pendekezo la Mgawo wa Faida

Kwa kuzingatia matokeo ya biashara mwaka 2016, kupitia mkutano wake uliofanyika Februari 21, 2017, Halmashauri ya wakurugenzi inatoa pendekezo la mgawo wa mwisho wa faida wa hisa Ksh.0.50 kwa kila hisa.

Mtazamo wa Siku za Usoni

Kwa mujibu wa benki ya dunia, uchumi wa taifa la Kenya unatarajiwa kupanuka mwaka 2017 kutokana na bei za mafuta, kuimarika kwa mazao ya kilimo, sera saidizi za kifedha na uwekezaji unaoendelea sasa kwenye miundo misingi. Hata hivyo, ukuaji huu unaweza kurejea nyuma kutokana na maswala ya humu nchini yanayohusiana na uchaguzi mkuu ujao ulioratibiwa kufanyika Agosti 2017.

Licha ya changamoto za kiuchumi na mazingira ya utekelezaji biashara, nina imani kuhusiana na siku za usoni za kundi. Kama Halmashauri, tutaendelea kutoa mwongozo na msaada unaohitajika kuhakikisha kuwepo kwa matokeo ya kufana. Halmashauri imejitolea kusaidia usimamizi kufanikisha mkakati wa kundi na kupata thamani kamili kwa wanahisa.

Shukrani

Kwa niaba ya halmashauri ya wakurugenzi, ningependa kutoa shukrani kwa wateja wetu, wanahisa na wadau wengine kwa imani ambayo wameonyesha dhidi ya kampuni huku tukiwatambua wafanyakazi wote na usimamizi kutokana na kudhihirisha utaalamu wao, uwajibikaji na jitihada katika ujenzi wa taasisi ya kudumu. Kwa wenzangu kwenye halmashauri, ningependa kuwashukuru kutokana na umoja ambao mmedhihirisha kwenye biashara. Natumai kwamba tutazidi kuongeza thamani ya wanahisa kupitia matumizi ya mikakati ya busara na inayowajibika huku tukihakikisha kwamba tunatoa mchango kwa ufanisi wa malengo ya kitaifa.

Steve O. Mainda, EBS
Mwenyekiti Wa Kundi

Tarehe: 27 Februari 2017

GROUP MANAGING DIRECTOR'S STATEMENT

Frank Ireri, **EBS**
Group Managing Director

Dear Shareholders,

In 2016, HF Group celebrated 51 years of existence and over the years has built a strong legacy of making the dream of home ownership a reality for many Kenyans. Decent housing is a fundamental need and as a Group we continue to develop innovative solutions to enhance property ownership.

The Group has been on an aggressive growth trajectory which saw concerted efforts to create awareness and build capacity for its expanded offering. This came on the back of the re-organization and rebranding from Housing Finance to HF Group, in August 2015 that positioned the Group to operate optimally and deliver on its growth strategy.

In the wake of the rebrand and to create awareness for the newly formed banking subsidiary HFC, countrywide customer roadshows, aligned to our branch network were conducted and these presented an effective opportunity to engage customers at the grass root level.

The year also saw the take-off of our 2016-2020 strategy dubbed Vision 2020, which is the Group's next wave of growth. As a Group, our focus remains within the property ecosystem and unlocking its inherent value for the benefit of all our stakeholders. The strategy also underpins our commitment to meet the growing needs of our customers and positions the Group as a one stop shop for all property and financial solutions by leveraging the capabilities and synergies of the subsidiaries. This strategy focuses on six strategic thrusts namely Full Service Banking, Property Finance, Corporate Banking, Property Development, Affordable Housing, and Bancassurance.

HF Group Financial Performance

The Group performance for 2016 was unfortunately below our expectations on the back of tight liquidity following the collapse of some Banks and changes to the Banking Act. Some of the key highlights of our performance is as follows:

- The Group profit before tax Ksh 1.366b
- Customer deposits at HFC Ksh 38.707b
- Loans and advances to HFC customers Ksh 54.470b
- Non-performing loans stood at Ksh 6.193b
- Total interest income Ksh 8.607b
- Total shareholders' funds Ksh 11.289b
- HFC liquidity stood at 21.05%
- HF Group's borrowed funds stood at Kshs 19.737b

Update on Vision 2020

Below are some of the key business milestones during the year:

Banking

In 2016, the Group undertook a number of strategic initiatives in support of its Full Service Banking proposition and ambition to position HFC to join the league of top 10 banks. These initiatives which made our banking proposition more relevant to the needs of our customers include:

- Branch expansion: HFC opened an additional 7 branches (Nanyuki, Embu, Ongata Rongai, Hurlingham, River Road, Machakos and Komarock) which brought the number of branches across the country to 25.
- Consumer banking product including salary account, salary advance, youth account, personal check off and personal unsecured loans.
- Business banking products including SME business account, collections account, SME secured and unsecured loans.

Micro Credit products: in partnership with Microsave, HFC designed solutions to address the needs of customers in the growing micro-enterprise segment.

The Group also launched its Custodial business which is set to drive revenue for the business. This new business stream will leverage on the existing synergies in property development and project finance, through active support via Trustee Services for REITs and ESCROW, further cementing our position in the property space.

Property Development and Affordable Housing

In 2016, the Group's property development subsidiary - HFDI, successfully completed the development of Kahawa Downs, 220 apartments on Thika Road as well as its first mall, K-Mall, located in Komarock estate. In addition, the year saw the ground breaking for ClayCity, a joint venture project consisting of 1,520 apartments along Thika Road.

HFDI also introduced a facilities management capability to provide a broad spectrum of property related services in Kenya. This new capability is part of the initiatives of the Vision 2020 strategy and aims to oversee greater profitability for the Group's real estate pipeline which includes retail and commercial space in addition to the large scale residential developments. It is anticipated that through this new business line, HFDI will be managing approximately 5,000 homes, 3,000 square meters of retail space and 45,000 square meters of commercial floor space.

GROUP MANAGING DIRECTOR'S STATEMENT (CONTINUED)

Insurance

The year also saw the Group's insurance agency – HF Insurance Agency - focus on expansion of its product portfolio to leverage the opportunities that exist with the Group's customer base. Notably, the agency in conjunction with Britam, launched a medical insurance product dubbed "AfyaMed" a flexible medical solution that allows customers to choose from a range of 8 plans. Other products launched within the period include micro insurance, SME insurance, livestock and poultry insurance, and professional indemnity. The insurance agency has collaborated with HFC to ensure that all these solutions can be accessed at the bank branches.

Our people

The Group strongly believes that our workforce plays a critical role in the success of our business strategy. Throughout 2016, we compounded our effort in focusing on quality human capital for continuous growth and success.

In order to enhance staff productivity and motivation, the Group continuously enhances metrics for measuring performance across all business units. These metrics include financial goals, customer service, people and development as well as business processes.

Capacity building was another area of focus in 2016. Staff members underwent a number of trainings geared at driving effectiveness and quality of delivery to customers. These trainings included:

- Capacity building in Credit Risk Management & SME Appraisal, Advanced Credit – SME & Corporate Analysis, Environmental and Social Risk Management through technical assistance from EIB
- Leadership Training by Raiser Group
- Sustainable Finance Initiative (SFI) - an industry wide self-regulation training championed by the Kenya Bankers Association

Looking into the future

While the business environment remains a challenge due to the operating environment, the Group has put in place mitigating measures to ensure that the business continues to create shareholder value in the years to come.

In the 2017 financial year, the Group plans to bolster its property development capability through HFDI. In the pipeline is the expected completion of the construction of Richland Pointe, a joint venture project comprising of 248 apartments along Kamiti Road and Phase one of Komarock Heights which has 480 apartments.

Plans are also underway to develop more properties under the joint venture model, which will see the Group make a significant contribution towards the provision of affordable housing for the lower and middle income market segments.

In the banking space, the growth of the Full Service Banking is on course and is expected to make a bigger contribution to the bottom line. We appreciate that today's customer is moving away from the brick and mortar branch presence and as such we have invested in alternative channels geared towards enhancing customer accessibility and convenience. These channels, which will be rolled out in the course of the year, include: our internet banking solution; enhanced merchant services, a digital customer portal as well as a revamped mobile solution.

The first tranche of the Medium Term Bond worth Shs 7 billion is due for maturity in October 2017 and the Group has planned for this in its 2017 budget and is prepared to make the necessary repayment to investors.

As a team, we remain focused on meeting the multi-faceted needs of customers across our diversified business lines, with the aim of maintaining a strong market standing and positioning the company for growth in the years to come.

Conclusion

I am confident that the coming years, will see the Group maintain and enhance its strength and capitalize on the diverse growth opportunities in the country, as we make dreams possible for all our stakeholders.

Frank Ireri, EBS
Group Managing Director

Date: 27th February 2017

TAARIFA YA MENEJA MKURUGENZI

Kwa Wanahisa,

Mwaka 2016, HF Group ilisherehekea miaka 51 tangu ianzishwe na kwa muda wa miaka iliyopita imeweka historia thabiti ya kutimiza ndoto ya umiliki wa nyumba kuwa ya kweli kwa wakenya wengi. Uwepo wa nyumba za kisasa ni hitaji la kimsingi na sisi kama kundi tutaendelea kuleta suluhu la ubunifu ili kuhamasisha umiliki wa raslimali.

Kundi limekuwa katika harakati za mkondo ukuaji unaotarajiwa ambao ulishuhudia juhudi za pamoja za kubuni ufahamu na kupanua uwezo wa bidhaa zake zilizopanuka. Hili liliwadia baada ya kundi kufanyiwa mabadiliko na kuwa na sura mpya kutoka Housing Finance hadi HF Group mnamo Agosti 2015 hali iliyoliweka kundi kutekeleza shughuli zake kikamilifu na kufanisha mkakati wake wa ukuaji.

Baada ya kufanyiwa mabadiliko ya sura na kutoa ufahamu wa vitengo tanzu vya benki vilivyobuniwa vya HFC, maonyesho mbali mbali kwa wateja yaliyoelenga mtandao wa matawi kote nchini yalifanywa. Maonyesho haya yalitoa nafasi mwafaka kwetu kutangamana na wateja mashinani.

Mwaka huu pia ulishuhudia kuzinduliwa kwa mkakati wetu wa mwaka 2016-2020 unaojulikana kama Vision 2020 ambao ni mkondo mwingine wa ukuaji. Kama kundi, angazio letu lingali kwenye mfumo wa ekolojia za raslimali na kuzalisha thamani kwa manufaa ya wanahisa wetu wote. Mkakati huu pia unasisitiza uwajibikaji wetu kutimiza mahitaji ya wateja yanaozidi kuongezeka na wakati huo kuliweka kundi kama kituo kimoja cha kutoa suluhu la raslimali na fedha na kuinua uwezo na nguvu za kampuni tanzu. Mkakati huu unaangazia maeneo sita ambayo ni huduma kamili za benki, ufadhili wa raslimali, huduma za benki kwa mashirika, ustawi wa raslimali, uwepo wa makao kwa bei nafu na huduma za bima kupitia benki, mwelekeo ambao uliliwezesha kundi kupata mafanikio ya haraka mwaka 2016 licha ya changamoto za kiuchumi na mabadliko ya kanuni za utawala.

Matokeo ya Kifedha ya HF Group

Hata hivyo, matokeo ya mwaka 2016 yalikuwa ya chini kutokana na mtaji finyu kufuatia kuanguka kwa baadhi ya benki na mabadiliko ya sheria za benki. Baadhi ya vidokezo muhimu vya matokeo yetu ni kama vifuavyo;

- Faida ya kundi kabla ya ushuru ilikuwa Kshs. bilioni 1.365
- Akiba ya wateja katika HFC ilikuwa Kshs. bilioni 38.707
- Mikopo na malipo ya awali kwa wateja wa HFC ilikuwa Kshs. bilioni 54.470
- Mikopo isiyolipika ilikuwa Kshs. bilioni 6.193
- Mapato ya riba kwa jumla yalikuwa Kshs. bilioni 8.607
- Hazina kwa jumla ya wanahisa ilikuwa kshs. bilioni 11.289
- Mtaji wa HFC ulifikia 21.05%
- Hazina ya fedha zilizokopwa kutoka HFC ilifikia Kshs. bilioni 19.737

Vidokezo Kuhusu Ruwaza ya 2020

Yafuatayo ni baadhi ya mafanikio muhimu wakati wa kipindi cha mwaka.

Benki

Mwaka 2016, kundi lilitekeleza baadhi ya mbinu za mikakati ili kusaidia shughuli nzima za huduma za benki na azima ya kuiweka HFC kuwa miongoni mwa ligi ya benki 10 bora. Mikakati hii iliyoiweka benki yetu katika nafasi bora kwenye mahitaji ya wateja ya wateja ilihusu:

- Upanuzi wa tawi: HFC ilifungua matawi mengine 7 zaidi (Nanyuki, Embu, Ongata Rongai, Hurlingham, River Road, Machakos na Komarock) ambayo yalifanya jumla ya idadi ya matawi kufikia 25 kote nchini.
- Bidhaa za matumizi ya wateja zilihusu akaunti za mishahara, malipo ya awali ya mishahara, akaunti za vijana, huduma za malipo kupitia benk na mikopo ya kibnafsi isiyohitaji udhamini.
- Bidhaa za kibiashara za benki zilihusu akaunti za chumi ndogo (SME) za biashara, akaunti ya ukusanyaji, mikopo ya chumi ndogo iliyodhaminiwa na isiyodhaminiwa.
- Bidhaa za mikopo midogo: kwa ushirikiano na Microsave, HFC iliandaa suluhu la kuangazia mahitaji ya wateja katika kitengo kinachokua cha uwekezaji kwenye mikopo midogo.

TAARIFA YA MENEJA MKURUGENZI

Pia, kundi lilianzisha biashara zake za uhifadhi wa hati ambazo zinakusudiwa kuendesha mapato ya biashara. Kitengo hiki kipya cha biashara kitasawazisha Ustawi wa raslimali na ufadhili wa mradi kupitia usaidizi huduma za udhamini wa REITs na ESCROW na kuimarisha zaidinafasi yetu kwenye soko la raslimali.

Maendeleo ya Raslimali na Makao Nafuu

Mnamo 2016, kitengo tanzu cha maendeleo ya raslimali za kundi – HFDI kilikalimisha kikamilifu ujenzi wa Kahawa Downs ambao ni mradi wa vyumba 220 kando mwa barabara ya Thika Road pamoja na jumba lake la kwanza la kibiashara (mall) , K- Mall lililoko mtaani Komarock. Zaidi ya hayo, mwaka huu ulishuhudia uchimbaji msingi wa ClayCity ambao ni mradi wa pamoja wenye majumba 1, 520 kando mwa barabara ya Thika Road.

HFDI pia ilianziisha uwezo wa usimamzi wa vifaa ili kutoa huduma pana za raslimali nchini Kenya na eneo la Afrika Mashariki. Uwezo huu mpya ni sehemu mojawapo ya mikakati ya ruwaza ya 2020 na inalenga kusimamia faida kubwa kwenye mtandao wa ujenzi wa majumba wa kundi ambao unahusisha biashara za reja reja na za kimashirika licha ya ujenzi wa majumba makubwa ya kibiashara. Inakisiwa kwamba kupitia mbinu hii moya , HFDI itakuwa ikisimamia takriban makao 5,000, mita 3,000 mraba za reja reja na mita 4.500 mraba za majumba ya kibiashara

Bima

Mwaka huu pia ulishuhudia wakala wa bima wa kampuni-HF Insurance Agency ikiangazia upanuzi wa bidhaa zake ili kutumia vyema nafasi za kundi kwa wateja wake. Kwa kutambua, wakala akishirikiana na Britam alizindua bidhaa ya huduma ya bima ya matibabu kwa jina '' AfyaMed'' ambayo ni suluhu rahisi kwa bima za matibabu ambayo inawaruhusu wateja kuchagua aina 8 mbali mbali za bidhaa. Bidhaa nyingine zilizozinduliwa wakati wa kipindi hiki ni pamoja na huduma ya bima ya '' micro Insurance, SME insurance, bima ya mifugo na kuku na fidia za kitaalumu Wakala wa bima imeshirikiana na HFC kuhakikisha kwamba huduma hizi zote zinaweza kupatikana kupitia matawi ya benki.

Watu Wetu

Kundi linaamini kwa dhati kwamba wafanyakazi wetu hutekeleza jukumu kubwa kwa ufanisi wa mkakati wa biashara. Kipindi chote cha mwaka 2016 tuliweka pamoja juhudi zetu kuangazia mtaji wa kuimarisha uendelezaji wa ukuaji na ufanisi.

Ili kuhamasisha uzalishaji wa wafanyakazi na kuwapa motisha, kila mara kundi hutumia mfumo wa kupima matokeo kwenye vitengo vyote vya biashara. Mifumo hii inahusu malengo ya kifedha, huduma kwa wateja, watu na maendeleo pamoja na hatua za kibiashara.

- Uimarishaji wa uwezo ulikuwa eneo jingine lililoangaziwa Mwaka 2016. Wafanyakazi walipokea mafunzo aina mbali mbali kuwawezesha kufanikisha matokeo na ubora wa huduma kwa wateja. Mafunzo haya yalihusu:
- Uimarishaji wa uwezo katika usimamizi wa hatari za mikopo na tathmini ya chimi ndogo, tathmini ya chimi ndogo na mashirika, usimamizi wa hatari za kijamii kupitia usaidizi wa kiufundi kutoka benki ya uwekezaji ya European Investment Bank (EIB)
- Mafunzo ya usimamizi kutoka kundi la Raiser Group
- Mbinu za kudumu za kifedha (SFI) ambayo ni mafunzo pana ya usimamizi wa kibnafsi yaliyosimamiwa na Kenya Bankers Association.

Mtazamo wa Siku za Usoni

Huku mazingira ya biashara yakisalia kuwa na changamoto kutokana na mazingira ya utekelezaji, kampuni imeandaa hatua za kukabiliana na changamoto hizi kuhakikisha kwamba biashara inaendelea kuzalisha thamani kwa wanahisa miaka inayokuja.

Katika mwaka wa kibiashara wa 2017, kundi linaandaa kuimarisha uwezo wake wa maendeleo ya biashara kupitia HFDI. Kwenye mkondo ni ukamilishaji wa ujenzi wa Richland Pointe ambao ni mradi wa pamoja unaohusisha nyumba 248 kando mwa barabara ya Kamiti Road na awamu ya kwanza ya Komarock Heights ambayo ina nyumba 480.

Kuna mipango iliyoandaliwa kujenga nyumba zaidi chini ya mpango wa ushirikiano. Mpango huu utashuhudia kundi likitoa mchango maalumu wa kubuni makao nafuu kwa watu wenye mapato ya chini na kadri kwenye soko la mapato.

Kwenye jukwaa la benki, ukuaji wa huduma kamili unaendelea na unatarajiwa kutoa mchango mkubwa kwa matokeo ya chini. Tunatamabua kwamba mteja wa nyakati hizi anajiondoa kutoka kumbi za banki na kwa sababu hiyo tumewekeza kwenye mbinu mbadala ambazo zitasadia kuimarisha uwezo wao kufikia huduma kwa njia ya urahisi. Mbinu hizi zitakazozinduliwa mwakani zitahusu: suluhu la benki kwa matumizi ya intatenti; kuimarishwa kwa huduma

TAARIFA YA MENEJA MKURUGENZI

za biashara; kitengo cha kidijiteli cha wateja pamoja na kuimarishwa kwa huduma tamba.

Zaidi ya hayo, kundi linatarajia kupanua huduma zake mashinani na huduma za uhifadhi zimewekwa vyema ili kuendesha upanuzi huu.

Toleo la muda wa kadri la dhamani la Kshs. bilioni 10 lililotolewa mwaka 2010 linatarajiwa kukomaa mwezi Oktoba 2017 na kundi limepanga hili kwenye bajeti yake ya mwaka 2017 na limejiandaa kulipa malipo husika kwa wawekaji.

Kama timu, tutaendelea kuangazia uafikiaji wa mahitaji ya wateja maeneo yote ya biashara zetu tukiwa na lengo la kudumisha soko imara na kuiweka kampuni kwenye ukuaji mwaka 2017.

Hitimisho

Ufanisi wa HF Group unatokana na uwajibikaji wa watu na kuendelea kwao kuangazia uimarishaji wa matarajio ya wateja wetu. Tumewekeza kwenye talanta na tuko kwenye mkondo wa kuendeleza mkakati wa ruwaza yetu ya mwaka 2020.

Nina imani kwamba miaka inayokuja tutashuhudia kundi likihifadhi na kuimarisha uwezo wake na kutumia vyema nafasi za ukuaji nchini huku tunapofanya ndoto kuwa kweli kwa washika dau wetu.

Frank Ireri, EBS
Meneja Mkurugenzi Wa Kundi

Tarehe: 27 Februari 2017

MANAGEMENT TEAM

Frank Ireri Managing Director	George Njuguna	James Karanja	Sam Waweru	Achieng Oluoch

MANAGEMENT TEAM

Constantine Barasa | Regina Anyika | Ben Lanya | Caroline Armstrong | Francis Kinyanjui | Jane Surungai

HFC DIRECTORS

Steve Mainda Chairman	Sam Waweru Managing Director	Frank Ireri	Benson Wairegi	Gladys Ogallo	John Nicholas Ashford-Hodges	Shilpa Haria

HF INSURANCE AGENCY DIRECTORS

Frank Ireri
Chairman

Jane Surungai
Principal Officer

Constantine Barasa

Patrick Mokaya

HF DEVELOPMENT AND INVESTMENT (HFDI) DIRECTORS

Adan Mohamed Chairman	James Karanja Executive Director	Frank Ireri	Benson Wairegi	Peter Munga	Caroline Ongeri	Constantine Barasa

HF FOUNDATION DIRECTORS

Peter Munga Chairman	Frank Ireri	Caroline Armstrong	Ruth Kagia	Christopher Khaemba

Clay City

Clay City is a joint venture project located at the renown Clay Works Kenya site along Thika Road, approximately 20 minutes' drive from Nairobi's Central Business District. The development consists of a mix of modern 2 and 3 bedroom apartments set against the backdrop of a dam and surrounded by beautiful landscaping, providing a haven for families which value serenity.

PICTORIAL OF 2016 ACTIVITIES

Property Open Days

Komarock Heights Open Day

Komarock Heights Open Day

Richland Pointe Open Day

Richland Pointe Open Day

Customer Roadshows

Machakos Roadshow

Mombasa Roadshow

PICTORIAL OF 2016 ACTIVITIES

Customer Roadshows

Kisumu Roadshow

Eldoret Roadshow

Meru Roadshow

Kisii Roadshow

Homes Expo

Transport & Infrastructure C.S James Macharia at our stand at the 24th Homes Expo

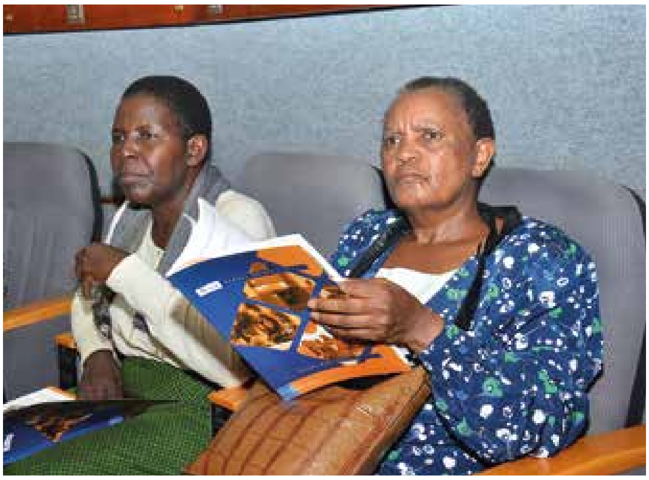
HFC staff receive the award for 1st position - Bank and Mortgage Financier's Category at the 24th Homes Expo

PICTORIAL OF 2016 ACTIVITIES

2016 AGM and Investor Briefing

HF Group Managing Director, Frank Ireri makes a presentation during the investor briefing

HF Group Chairman,Steve Mainda, Group MD, Frank Ireri and HFC MD Sam Waweru review the Group review the Group results


Shareholders review the annual report during the 2016 Annual General Meeting


Shareholders follow proceedings during the 2016 Annual General Meeting


HFC Managing Director, Sam Waweru addresses shareholders during the 2016 Annual General Meeting


Shareholders at the 2016 Annual General Meeting

PICTORIAL OF 2016 ACTIVITIES

Customer Engagement

Rehani Branch customer receives a medical check up during the World Health Day

Rehani Branch customer receives a medical check up during the World Health Day

Machakos customer engagement

Machakos customer engagement

Creating an Army of 1 Million Artisans

Artisans graduation

Hand over of the updated occupational standards to the Curriculum Development Accreditation Certification Council

HF Insurance Agency

In 2016, HF Insurance Agency set out to provide competitive and innovative insurance solutions for our customers. These include AfyaMed, a medical solution developed in collaboration with Britam, which gives customer friendly and flexible options to choose from.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December, 2016. The report discloses the state of affairs of the Group and the Company.

1. Principal activities

The Company is licensed as a non-operating holding company under the Banking Act (Cap.488).

The subsidiaries' principal activities are to encourage and promote the flow of both private and public savings into financing home ownership, corporate and retail banking solutions, development and selling of residential houses,insurance agency business, and social investment.

2. Results and appropriations

	2016 KES'000	2015 KES'000
Gross income	**9,363,048**	**9,269,225**
Profit before taxation		
HF Group Limited	(74,343)	824,713
HFC Limited	1,464,287	745,940
HF Development and Investments Limited	(46,219)	167,174
First Permanent (East Africa) Limited	(109)	(86)
HF Foundation	1,553	818
HF Insurance Agency Limited	20,484	14,959
Group profit before taxation	**1,365,653**	**1,753,518**
Taxation	(459,824)	(556,549)
Profit after taxation	905,829	1,196,969
Retained profit and available for sale reserves brought forward	3,166,404	2,853,885
	4,072,233	**4,050,854**
Dividends –paid/proposed	(174,754)	(541,992)
Change in fair value of available for sale investments net of taxes	(17,212)	(13,433)
Transfer to statutory reserve	(60,441)	(329,025)
Retained profit and available for sale reserves carried forward	**3,819,826**	**3,166,404**

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

3. Dividend

The Directors recommend a final dividend payment of KES 174,690,834 (2015 – KES 226,782,834). An interim dividend amounting to KES Nil (2015 – KES 226,360,000) was paid during the year. The total dividend for the year is therefore KES0.50 per share (2015 – KES 1.30), amounting to a total of KES 174,690,834 (2015 – KES 453,142,834).

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 5.

5. Auditors

The auditors, KPMG Kenya continue in office in accordance with the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap.488).

6. 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.

7. Approval of financial statements

The financial statements set out on pages 66 to 139 were approved at a meeting of the Directors held on 27 February, 2017.

BY ORDER OF THE BOARD

Regina Anyika
Company Secretary

Date: 27th February 2017

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2016

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2016. Ripoti inafichua hali ya kundi na kampuni.

1. Shughuli Muhimu

Kampuni hii imesajiliwa rasmi kama kampuni isiyoshikilia pesa za wateja chini ya kifungu cha sheria za masuala ya benki (nambari 488)

Shughuli nyinginezo ndogo ni pamoja na kuhimiza na kuhamasisha uwekaji wa akiba wa kibnafsi na wa umma ili kufadhili umiliki wa makao, na suluhu la benki kwa mashirika na reja reja, kubuni na kuuza nyumba za kuishi na uwakala wa biashara za bima na uwekezaji wa kibnafsi.

2. Matokeo na Makadirio

	2016	2015
	KES'000	KES'000
Mapato Kwa jumla	**9,363,048**	**9,269,225**
Faida kabla ya ushuru		
HF Group Limited	(74,343)	824,713
HFC Limited	1,464,287	745,940
HF Development and Investments Limited	(46,219)	167,174
First Permanent (East Africa) Limited	(109)	(86)
HF Foundation	1,553	818
HF Insurance Agency Limited	20,484	14,959
Faida ya kundi kabla ya ushuru	**1,365,653**	**1,753,518**
Ushuru	(459,824)	(556,549)
Faida baada ya ushuru	905,829	1,196,969
Faida iliyohifadhiwa na Iliyo tayari kuuzwa. Hazina iliyo- wasilishwa	3,166,404	2,853,885
	4,072,233	**4,050,854**
Mgawo uliotolewa awali/ uliopendekezwa	(174,754)	(541,992)
Mabadiliko ya thamani kwa raslimali zilizoko kwa Madhumuni ya kuuzwa na ushuru kwa jumla	(17,212)	(13,433)
Kuhamishwa kutoka hazina ya kisheria	(60,441)	(329,025)
Faida iliyohifadhiwa na iliyoko kwa madhumuni ya mauzo yaliyowasilishwa mbele	**3,819,826**	**3,166,404**

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2016

3. Mgawo wa Faida

Wakurugenzi wanapendekeza kutolewa kwa malipo ya mwisho ya mgawo wa faida ya Kshs.174, 690, 834 (2015 yalikuwa Kshs. 226, 782, 834). Malipo ya awali ya mgawo wa faida yaliyokuwa sufuri.(2015 yalikuwa Kshs. 226, 360,000) yalilipwa wakati wa kipindi cha Mwaka. Malipo ya jumla ya mgawo wa faida kwa kila hisa yatakuwa Kshs. 0.50 (2015 yalikuwa kshs. 1.30) na kufanya jumla kuwa Kshs. 174, 690, 834 (2015 yalikuwa Kshs. 453, 142, 834)

4. Wakurugenzi

Wakurugenzi waliohudumu wakati wa kipindi hiki cha mwaka wameangaziwa kupitia ukurasa wa tano.

5. Wakaguzi wa Pesa

Wakaguzi wa Pesa KPMG wataendelea na jukumu lao kwa mujibu wa sheria za makampuni za Kenya za Mwaka 2015 na kwa kutegemea sehemu 24 (1) ya sheria za benki (sura ya 488)

6. Maelezo muhimu ya ukaguzi wa pesa

Wakurugenzi waliokuwa ofisini Wakati wa ripoti hii wanathibitisha kwamba;

(i) Hakuna maelezo yoyote ya ukaguzi wa pesa ambayo wakurugenzi wa kampuni hawana ufahamu nayo; na

(ii) Kila mkurugenzi amechukua hatua zote anazostahili kama mkurugenzi ili kuwa na ufahamu wa maelezo yoyote muhimu ya ukaguzi wa pesa na kufahamu kwamba mhasibu wa kampuni ana ufahamu wa maelezo hayo.

7. Kuidhinishwa kwa taarifa za matumizi ya pesa

Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 66 hadi 139 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika Februari 27, 2017.

KWA AMRI YA HALMASHAURI

Regina Anyika
Katibu Wa Kampuni

Tarehe: 27 Februari 2017

CORPORATE GOVERNANCE

The Board of HF Group Limited is responsible for the overall management of the Group and is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices in corporate governance.

In recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2013 under Section 33(4) of the Banking Act and The Guidelines on Corporate Governance Practises by Public Listed Companies in Kenya issued by the Capital Markets Authority in May 2002 under Cap. 485A of the Capital Markets Authority Act.

1. The Board of Directors

The Board is responsible for drawing and implementing strategies for the long-term success of the Group as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. To this end, the Board meets regularly and has a formal schedule of matters reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group and overseeing the Group's compliance with statutory and regulatory obligations.

Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board is composed of eight Non-Executive Directors including an Independent Chairman and one Executive Director. Mr. Frank Ireri is the Managing Director. At least a third of the Directors are independent and Non-Executive. The Directors have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

All Non-Executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

2. Board and Management Committees

The Board has constituted 4 sub-committees chaired by Non-Executive Directors namely, Nomination and Governance, Audit & Risk, Strategy and Marketing.

(a) Nomination and Governance Committee

The members of the Nomination and Governance committee are:

- Constance Gakonyo (Chairperson)
- Peter Munga
- Frank Ireri (Group Managing Director)
- Gladys Ogallo

All the committee members are Non-Executive Directors with the exception of the Group Managing Director.

CORPORATE GOVERNANCE (CONTINUED)

2. Board and Management Committees (Continued)

(a) Nomination and Governance Committee (Continued)

The committee's responsibilities include:

- Reviewing the structure, size and composition of the Board to ensure the optimum balance of skills, knowledge and experience taking into account the opportunities and challenges which face the Group;
- Identifying and nominating for the approval of the Board a suitable candidate for any Board vacancy which may arise;
- Monitoring the development of succession plans for the Group relating to senior executive management;
- Reviewing the emoluments of both executive and Non - Executive Directors, and senior management.

This Committee carries out a peer and self-evaluation of the Board and its committees to assess their contribution and also to ensure that there is the requisite mix of skills and experience available to effectively discharge their duties.

(b) Board Audit & Risk Committee (BARC)

This committee is composed of four Non-Executive Directors namely:

- Felister Kembi (Chairman)
- Adan D. Mohammed
- Kaushik Manek
- Gladys Karuri

The principal roles of the committee are to:

- Improving the quality of financial reporting by ensuring that the accounts are prepared in a timely and accurate manner to facilitate prompt publication of annual waccounts;
- Strengthening the effectiveness of the internal and external auditing functions by ensuring the establishment of a permanent internal audit function. In fulfilling its duties and responsibilities, the Board and senior management should take all the necessary measures to ensure that the Group has a permanent internal audit function commensurate with the size, nature and complexity of its operation;
- Reviewing and monitoring the external auditors' independence and objectivity, taking into consideration relevant professional and regulatory requirements. In fulfilling its duties, the BARC will review with the external auditors, the scope of their audit plan, system of internal audit reports, assistance given by management and its staff to the auditors and any findings and actions to be taken;
- Review and approve the Group's significant risk assessment and risk assessment policies and authorize management to develop and implement any additional polices relating to risk management;AND
- Set out the nature, role, responsibility and authority of the risk management function with the institution and outline the scope of risk management work, and ensure that managers establish a risk aware culture which reflects the Group's risk policies and philosophies.
- Review methods of identifying broad areas of risk and set parameters or guidelines for business risk reviews.

(c) Board Strategy Committee

This committee is composed of five Non-Executive Directors and the Group Managing Director:

- Benson Wairegi (Chairman)
- Peter K. Munga
- Adan D. Mohammed
- Kaushik Manek
- Frank Ireri (Group Managing Director)
- Gladys Ogallo

CORPORATE GOVERNANCE (CONTINUED)

2. Board and Management Committees (Continued)

(c) Board Strategy Committee (Continued)

The principal roles of the committee are to:

- Oversee the implementation of the Group's strategy;
- Approve and participate in the annual strategy review process;and
- Approve all key strategic initiatives including but not limited to; appointment of consultants, capital & revenue expenditure and investments.

(d) Board Marketing Committee

This committee is composed of two Non-Executive Directors, the Group Managing Director and HFC Ltd Managing Director.

- Constance Gakonyo (Chairperson)
- Glady's Ogallo
- Frank Ireri (Group Managing Director)
- Sam Waweru (HFC Ltd Managing Director)

The primary purpose of the Board Marketing Committee is:

- Review and approve the marketing and communications plan developed by Management and adjust/ provide ongoing monitoring at Committee meetings
- Provide direction and general oversight in planning of marketing and communications activities.
- Review and approve policies and procedures related to marketing and communications initiatives;
- Ensure Managers determine the capabilities, use and development of resources surrounding marketing and communications activities
- Ensure that Managers control, mitigate and manage risk to the organization as a result of marketing and communications activities;
- Monitor activities to ensure that they are aligned with the HF Group corporate charter, policies and procedures
- Undertake any other tasks that may be delegated to it by the Group Board.

Attendance of Individual Directors

The following table shows the number of Board meetings held during the year and the attendance of individual Directors:

Board meetings attendance for the year ended 31 December 2016	Board meetings				Total attendance
Date	24/2	19/4	19/7	19/10	
Steve Mainda	✓	✓	✓	✓	4
Benson Wairegi	✓	✓	✓	✓	4
Peter Munga	X	✓	✓	X	2
Adan D Mohamed	✓	✓	✓	✓	4
Frank Ireri	✓	✓	✓	✓	4
Constance Gikonyo	✓	✓	✓	✓	4
Felister Kembi*	N/A	N/A	N/A	✓	1
Kaushik Manek	✓	✓	✓	✓	4

CORPORATE GOVERNANCE (CONTINUED)

2. Board and Management Committees (Continued)
Attendance of Individual Directors (Continued)

*Appointed on 26th September, 2016

✓ Attended
X Absent with apology
N/A Not applicable

A number of Management committees have been established by the Board to oversee operations in some critical areas. These are Executive committee (EXCO), Asset and Liability committee (ALCO), Risk Management committee, Lending committee, Arrears Management committee, Information Technology Steering committee and Management Strategy committee (STRATCOM). The Board appoints other committees as and when necessary.

3. Board Effectiveness Evaluation

To assess the performance of the Board, its committees and individual Directors, the Board conducts a rigorous performance evaluation each year. The process is led by the Chairman and supported by the Company Secretary.

In February 2017, the Directors completed the annual evaluation that covered a self-evaluation and evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

The Nomination & Governance Committee approved an evaluation process for Non - Executive Directors, which entails conducting one to one meetings with the Non-Executive Directors to discuss their performance and contribution.

4. Internal Audit Function

The Group has a fully operational internal audit function that is led by a senior member of staff who is a member of the Institute of Certified Public Accountants of Kenya. Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its audit programmes.

5. Communication with Shareholders

The Company is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about its performance; and
- Compliance with regulations and obligations applicable to the Nairobi Securities Exchange and the Capital Markets Authority.

Information is disseminated to the shareholders through an annual report and press notices following the release of quarterly, half yearly and annual results. Press releases on significant developments are also reported.

6. Directors Benefits and Loans

All the Non - Executive Directors have continued to receive Directors' fees. The aggregate amount of Directors' fees is disclosed in Note 10 Fo the financial statements.

CORPORATE GOVERNANCE (CONTINUED)

7. Major shareholders as at 31 December 2016

	Name	No. of shares	% age shareholding
1	Britam Investment Company (Kenya) Ltd.	67,878,315	19.43
2	Equity Nominees Limited A/C 00104.	45,756,825	13.10
3	Britam Insurance Company (Kenya) Ltd.	32,628,258	9.34
4	Britam Insurance Company (Kenya) Ltd.	23,270,000	6.66
5	Standard Chartered Nominees Resd A/C KE 11401	14,202,336	4.06
6	SCB A/C Pan African Unit Linked FD	11,810,050	3.38
7	Permanent Secretary Treasury	8,422,850	2.41
8	Kenya Commercial Bank Nominees Ltd. A/C 915B	3,929,112	1.12
9	Standard Chartered Nominees Resd A/C KE11450	3,929,112	1.12
10	Kenya Commercial Bank Nominees Ltd. A/C 915A	3,929,112	1.12
	TOTAL	**215,755,970**	**61.74%**

8 Distribution of Shareholders as at 31 December 2016

Number of shares	No. of shareholders	No. of shares held	% age shareholding
1-500	9,337	2,446,715	0.70
501-1,000	4,081	3,443,672	0.99
1,001-10,000	12,128	34,910,265	9.99
10,001-50,000	1,265	25,263,414	7.23
50,001-100,000	147	10,606,347	3.04
100,001-1,000,000	118	28,857,755	8.26
Over 1,000,000	23	243,853,499	69.80
TOTAL	**27,099**	**349,381,667**	**100%**

DIRECTORS' REMUNERATION REPORT

HF Group Limited ("the Group") is pleased to present the Director's remuneration report for the year ended 31 December 2016. This report is in compliance with the HF Group's remuneration policy, CMA Code of Corporate Governance Guidelines on Directors' remuneration and the New Companies Act 2015. The remuneration is reviewed regularly to ensure that it is within the existing market rates. This is done to ensure that individual members are effective and continue to pursue the business strategy. Performance of each member is evaluated annually and shared appropriately. All members are expected to observe attendance of the Board meetings and make valuable contributions depending on each member's area of specialty. The remuneration is disclosed through the periodic publications made by the Group.

During the financial year, HF Group's Board of Directors consisted of:

1 Executive Director:
Frank Ireri (Group Managing Director)

8 Non - Executive Directors:
Steve O. Mainda (Chairman)
Benson Wairegi
Peter K. Munga
Adan D. Mohamed
Constance Gakonyo
Kaushik Manek
Felister Kembi
Gladys Karuri

The remuneration of the Executive Director is as per negotiated employment contract. There has been no change to the Non-Executive Director's remuneration, as approved by the shareholders on 22 April 2016.

For the financial year ended 31 December 2016, the consolidated Directors' fees were KES 19,426,871, while directors expenses amounted to KES 2,149,683.

The Group will not be proposing to make any changes to the Non-Executive Directors' remuneration level during the current financial year.

Non-Executive Directors' Remuneration Policy and Framework

Non-Executive Directors are engaged on the basis of a letter of appointment. It is the policy of the Board of Directors that Non-Executive Directors are paid Directors' fees and sitting allowances, but are not eligible to participate in any of the Company's bonus, share option or pension schemes.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Non-Executive Directors' Remuneration Policy and Framework (continued)

Directors Fees & Sitting Allowances (Cash)	Policy framework
To attract and retain Non-Executive Directors of the highest calibre and having the necessary skills and expertise to exercise independent judgement on issues that promote the Company's objectives.	The Directors' fees and sitting allowances paid to Non-Executive Directors are determined by the Board of Directors, with recommendations from the Group Nomination and Governance committee.
	Members of the various committees are also eligible to receive an additional sitting allowance fee.
	The fees payable are reviewed periodically by the Group Nomination and Governance committee to ensure that the fees remain competitive and in line with remuneration of other Non-Executive directors in the same industry. Time commitment and responsibility are also taken into account when reviewing fees.
	Travel and expenses for Non-Executive Directors (including the Chairman) for company related assignments are all met by the Company.

BY ORDER OF THE BOARD

Regina Anyika
Company Secretary

Date: 27th February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of HF Group Limited set out on pages 66 to 139 which comprise the statements of financial position of the Group and the Company as at 31 December, 2016 and the Group's statement of profit or loss and other comprehensive income, Group's and Company statements of changes in equity and Group's statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Group and the Company.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of the Group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group and the Company's ability to continue as a going concern and have no reason to believe the Group and the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 27 February 2017 and were signed on its behalf by:

Frank Ireri:____________________
Director

Benson Wairegi: ____________________
Director

Felister Kembi:____________________
Director

Regina Anyika: ____________________
Company Secretary

Date: 27th February 2017

TAARIFA KUHUSU WAJIBU WA WAKURUGENZI

Wakurugenzi wana wajibu wa kuandaa na kutoa taarifa kuhusu matumizi ya pesa za HF Group Limited kama ilivyoelelezwa kupitia Ukurasa 66 hadi 139 ambayo inajumuisha hali za kifedha za Kundi na Kampuni kufikia Desemba 31, 2016 na taarifa za kina za Kundi kuhusiana na faida au hasara na mapato mengine , taarifa za mabadiliko ya umiliki wa hisa na mtiririko wa fedha kwa kipindi cha mwaka uliomalizika na pia muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa Wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika kuandaa uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni ile inayokubalika ili kuandaa na kutoa taarifa za matumizi ya pesa kulingana na hali ilivyo ; kutayarisha na kutoa taarifa za matumizi ya pesa kwa mujibu wa viwango vya kimataifa vya utoaji ripoti za taarifa ya matujmizi ya pesa na kwa njia inayohitajika na sheria za makampuni ya mwaka nchini Kenya ya mwaka 2015 na kwa hali udhibiti wa ndani ambao wakurugenzi wataona unafaa kuwezesha maandalizi ya taarifa za matumizi ya pesa ambayo itakuwa huru dhidi ya maelezo yasiyo sahihi iwe ni kutokana na udanganyifu au makosa.

Chini ya sheria za makampuni nchini Kenya ya mwaka 2015, wakurugenzi wanahitajika kuandaa taarifa za matumizi ya pesa kwa kila kipindi cha mwaka ambayo itatonyesha sura halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na pia matokeo ya shughuli mwaka huo. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi za hesabu ambazo zitafichua hali halisi ya kifedha kwa kampuni na kundi.

Wakurugenzi hukubali kuchukua jukumu la taarifa za matumizi ya pesa ambazo zimetayarishwa kwa sera za uhasibu na zinazoungwa mkono na uhakiki wa maana na makadirio yanayofaa na zinazowiana na viwango vya kimataifa vya utoaji taarifa za kifedha na kwa mujibu unaolingana na sheria za makampuni nchini Kenya ya mwaka 2015. Wakurugenzi wanakubaliana kwa kauli moja kwamba, taarifa za ukaguzi wa pesa zinaonyesha hali halisi kuhusiana na maswala ya kifedha na matokeo ya shughuli za kundi na kampuni.

Zaidi ya hayo, wakurugenzi wanakubali kuchukua jukumu la kudumisha rekodi za kifedha zinazoweza kutegemewa wakati wa kuandaa taarifa ya hesabu pamoja na taratibu za kudhibiti ukaguzi wa ndani wa kila siku wa fedha.

Wakurugenzi wamefanya tathmini ya kundi na uwezo wa kampuni kuendelea na shughuli zake na wana imani kwamba kundi na kampuni zitaweza kuendeleza mbele shughuli zao bila kuzisitisha kwa kipindi cha miezi kumi na mbili ijayo kuanzia siku ya kutolewa kwa taarifa hii.

Kuidhinishwa Kwa Taarifa za Matumizi ya Pesa

Taarifa za matumizi ya pesa zilizoonyeshwa hapo juu ziliidhinishwa na Halmashauri ya Wakurugenzi Februari 27, 2017 na kutiwa sahihi kwa niaba yake na:-

Frank Ireri:____________________________________
Mkurugenzi

Benson Wairegi: ____________________________________
Mkurugenzi

Felister Kembi: ____________________________________
Mkurugenzi

Regina Anyika: ____________________________________
Katibu wa kampuni

Date: 27 Februari 2017

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of HF Group Limited set out on pages 66 to 139 which comprise the Group and Company statements of financial position as at 31 December 2016, the Group statements of profit or loss and other comprehensive income, the Group and Company statements of changes in equity and Group statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and company financial position of HF Group Limited as at 31 December 2016 and of the consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 *'Auditors Responsibilities for the Audit of the Financial Statements'* section of our report. We are independent of the Group and 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 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (Continued)

Impairment of mortgage and advances to customers	
See accounting policy note 3 (j) (iii) - Significant accounting policies and disclosure note 18 – Loans and advances	
The key audit matter	**How the matter was addressed**
Impairment of loans and advances to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated. The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of borrowers and expected future cash flows. The collective impairment loss allowance relates to losses incurred but not yet identified (IBNR loss allowance) on other loans. The audit matters include controls over the models used, accuracy of input and appropriateness of model overlays. The model overlays are required to address certain known data and system issues and to reflect economic conditions at the year end.	Our audit procedures in this area included, among others: • Assessing the trends in the local credit environment, considering their likely impact on the Group's exposures and using this information to focus our testing on the key risk areas; • Assessing and testing the design and operating effectiveness of the controls over the Group's loans impairment process; • Testing a sample of model overlays, including evaluating the rationale for adjustments, the source of data used, key assumptions and sensitivity of the overlays to these assumptions. We compared the assumptions used to selected externally available industry, financial and economic data; • Re-performing certain credit procedures as follows: • For individually significant non-performing loans, performing a credit assessment to determine whether the grading was appropriate and assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral. Where available, we compared the assumptions and estimates made by management to externally available information; • Performing a credit assessment of the performing loans to determine whether their grading was appropriate and testing the accuracy of key inputs into the models, assessing the appropriateness of the impairment calculation methodology and re-performing certain calculations; • Assessing whether disclosures in the financial statements appropriately reflect the Group's exposure to credit risk.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (Continued)

Provisions and contingent liabilities in respect of litigations

See accounting policy note 3 (i) – Significant accounting policies and disclosure note 34 - Contingent liabilities.

The key audit matter	How the matter was addressed
The Group is subject to claims, which could have an impact on the Group's results if the potential exposures were to materialise. The Directors apply judgment when considering whether, and how much, to provide for the potential exposure of each litigation. We focused on this area given the complexity and judgment necessary to determine whether to provide for disclose or not disclose certain exposures.	Our work included, but was not limited to: • An assessment of the processes and controls over litigations operated by the Directors. We held discussions with the Group's in-house legal counsel, including after the year end to discuss the nature of ongoing claims, and to validate the latest status and accounting and disclosure implications. We also obtained formal confirmations from the Group's external counsel for significant litigation matters to ensure completeness of provisioning and disclosure; • We assessed the legal opinion from the external lawyers to challenge the basis used for the provisions recorded or disclosures made by the Directors. Where provisions were not required, we also considered the adequacy and completeness of the Group's disclosures made in relation to contingent liabilities.

Information Technology (IT) systems and control

The key audit matter	How the matter was addressed
Effective 1 January, 2016 HFC Limited implemented Profits as the entities new core banking system. Due to the inherent risks associated with a system upgrade and the processes around data migration, we identified IT systems and controls over financial reporting as a key audit matter. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	In this area our audit procedures included, among others: • Reviews over the data migration process, testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; • With the support of our own IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access; • Where we identified the need to perform additional procedures, we were able to place reliance on manual compensating controls, such as reconciliations between systems and other information sources or perform additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *Annual Report and Financial Statements*, but does not include the financial statements and our auditors' report there on. 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 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, 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.

Directors' responsibilities for the financial statements

As stated on page 54, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by 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, 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 or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 judgment and maintain professional skepticism 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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP LIMITED (CONTINUED)

Report on the audit of the financial statements (Continued)
Auditors' responsibilities for the audit of the financial statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.

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

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

Report on other legal and regulatory requirements

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

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi – P/1471.

KPMG Kenya

Date: 27th February, 2017

RIPOTI YA WAKAGUZI WA PESA WA KUJITEGEMEA KWA WANACHAMA

Ripoti ya Ukaguzi wa Taarifa za Matumizi ya Pesa

Maoni

Tumefanya ukaguzi wa taarifa za matumizi ya pesa za HF Group Limited kama zilivyoonyeshwa kutoka ukurasa wa 66 hadi 139 ambazo zinajumuisha taarifa za hali ya kifedha za kundi na kampuni kufikia Desemba 31, 2016, taarifa za kundi kuhusu faida au hasara na mapato mengine ya kina , taarifa za kundi na kampuni kuhusu mabadiliko ya umiliki wa hisa na taarifa za mtiririko wa pesa za kundi kwa kipindi cha mwaka uliomalizika na nukuu kuhusu taarifa za matumizi ya pesa zilizojumuishwa pamoja ukiwemo muhtasari wa sera muhimu na fafanuzi za maelezo mengine.

Kwa maoni yetu, taarifa zilizojumuishwa zinatoa taswira halisi na ya haki ya hali ya kifedha iliyowekwa pamoja ya HF Group Limited kufikia Desemba 31, 2016, matokeo mengine ya kifedha yaliyojumuishwa pamoja na pia mtiririko wa kifedha kwa kipindi cha mwaka uliomalizika kwa mujibu wa viwango vya kimataifa vya utoaji wa ripoti za matumizi ya fedha na sheria za makampuni nchini Kenya ya mwaka 2015.

Msingi wa maoni

Tulitekeleza ukaguzi wetu wa pesa kufungamana na viwango vya kimataifa vya uhasibu (ISAs). Majukumu yetu kuhusiana na viwango hivyo yameelezewa kwa kina kupitia sehemu ya '' wajibu wa wakaguzi wa pesa kuhusiana na ukaguzi wa taarifa za pesa'' ya ripoti yetu. Tulikuwa huru dhidi ya kundi na kampuni kwa mujibu wa halmashauri ya kimataifa ya viwango vya maadili ya wakaguzi wa pesa, kanuni za maadili ya wataalamu wa ukaguzi wa pesa (IESBA) pamoja na mahitaji ya kimaadili ambayo ni muhimu kwa ukaguzi wa taarifa za matumizi ya pesa nchini Kenya. Tumetimiza majukumu mengine ya kimaadili kufungamana na kanuni za IESBA. Tunaamini kwamba ushahidi kuhusu ukaguzi wa pesa ambao tumepata unatosha na unafaa kusimamia msingi wa maoni yetu.

Maswala muhimu ya uhasibu

Maswala muhimu ya uhasibu ni yale ambayo kwa uamuzi wetu wa kitaalamu yalikuwa muhimu sana wakati wa ukaguzi wetu wa hesabu za taarifa ya pamoja ya uhasibu wa fedha wakati wa kipindi hiki. Maswala haya yalijadiliwa kwenye muktadha wa ukaguzi wetu na taarifa ya pamoja ya matumizi ya pesa na kwa utoaji wa maoni yetu. Hatutoi maoni mengine tofauti kuhusiana na maswala haya.

RIPOTI YA WAKAGUZI WA PESA WA KUJITEGEMEA KWA WANACHAMA (Yaendelea)

Ripoti ya Ukaguzi wa Taarifa za Matumizi ya Pesa (Yaendelea)

Kudorora kwa mikopo ya mortgage na karadha/advansi

Hebu tazama sera ya uhasibu kipengele 3 (j) (iii) – Sera muhimu za uhasibu na uwazi kipengele 18 – Mikopo na karadha au advansi.

Suala kuu la Mkaguzi wa Hesabu	Jinsi suala husika lilivyoshughulikiwa
Kudorora kwa mikopo ya mortgage na karadha kwa wateja huchukuliwa kuwa suala kuu katika ukaguzi wa hesabu kwa sababu wakurugenzi wa kampuni huutumia kufanya maamuzi makubwa kuhusianana na makisio ya kiwango na hali kama hiyo. Ukaguzi wetu ulituama katika masuala yafuatayo kuhusiana na kudorora kwa mikopo.	Utaratibu wetu wa ukaguzi kuhusu suala hili ulihusisha: • Kutathmini vidhibiti muhimu katika ukadiriaji wa mikopo na utaratibu wa ufuatiliaji, kwa madhumuni ya kujua iwapo viwango vya utoaji mikopo vilikadiriwa inavyofaa kadri ya mpito wa wakati kubainisha hatari ya kutokea kwa hasara.
Makisio na maamuzi makuu yaliyofanywa na wakurugenzi ambayo yalikuwa msingi wa kupata hesabu ya udororaji. Makisio hayo ni pamoja na kipindi cha dharura kilichozingatiwa katika udhoofikaji wa mikopo ambayo haikubainishwa, makisio ya pesa zilizopokewa na kutoka pamoja na hasara iliyotokana na ufanyaji hesabu.	• Kufanya tathmini ya mikopo kadhaa. Kwa mikopo hii michache iliyoteuliwa, tuliangalia uwezekano wa mikopo kulipwa, uwezekano wa kupatikana kwa dhamana na namna nyinginezo za kimapato za kulipia mikopo. Tulizingatia makisio makuu dhidi ya mipango ya mipango ya kampuni pamoja na ufahamu wetu wa asasi husika na mazingira ya kibiashara.
Ukamilifu wa akaunti za wateja ambazo zilihusishwa na upigaji hesabu ya kudorora kwa mikopo, ikiwa ni pamoja na jinsi mikopo isiyobainishwa (wateja ambao walipata hasara ambayo hata haikubainika kutokana na tukio la kutolipwa au sababu yoyote nyingine) huzingatiwa.	• Kufanyia majaribio vidhibiti vikuu vinavyotumiwa na uongozi wa kampuni kuhusu manufaa ya takwimu muhimu katika mfumo mzima wa kudhibiti hasara. • Tathmini ya jumla kuhusu ufaafu wa masalio ya katika kitengo cha kubaini hasara kuhusiana na mabadiliko yaliyolenga idadi na ubora wa kitengo husika. • Katika kitengo maalum kinachodhibiti hasara, taratibu zetu za ziada zilihusisha kufanya tathmini ya maamuzi makuu yaliyofanywa kupunguza hasara, mathalan bei (makisio ya mapato ambayo yangepatikana) na wakati wa kuuza.

Madeni na gharama nyinginezo zinazotarajiwa kutokana na masuala ya kisheria

Tazama kipengele 3 (m) cha sera – Sera kuu za uhasibu na gharama za nyinginezo Kipengele 34 – Gharama zinazotarajiwa.

Kampuni iko katika uwezekano mkubwa wa kudaiwa, jambo ambalo linaweza kuathari matokeo iwapo hali husika zinaweza kutokea. Wakurugenzi hufanya maamuzi wakizingatia iwapo na kwa kiwango gani kutenga hela za kukidhi mahitaji ya namna kama zilizotajwa mwanzoni. Tuangazia kipengele hiki kutokana na uchangamano wa maamuzi ambayo yanahitajika kufanywa ili kubaini iwapo kutakuwa na haja ya kutenga hela, kuweka wazi au kutoweka wazi gharama kama hizo zinazotarajiwa kuwapo.	• Kazi yetu ilijumuisha japo haikufungika katika kufanya tathmini ya utaratibu na udhibiti wa kuzuia hasara uliotumiwa na wakurugenzi wa kampuni. Tulijadiliana na wanasheria wa kampuni hii ikiwa ni hata baada yam waka kukamilika, kushauriana kuhusu malipo yaliyokuwa yakidaiwa, pamoja na kutoa ithibati ya hali ya wakati huo ya akaunti na athari ambazo zingetokana na gharama husika. Tulipata ithibati rasmi kutoka kwa wanasheria wa nje wa kampuni kuhusu hatua muhimu za kupunguza madeni.

RIPOTI YA WAKAGUZI WA KIBINAFSI KWA WANACHAMA (Yaendelea)

Ripoti ya Ukaguzi wa Taarifa za Matumizi ya Pesa (Yaendelea)

Suala kuu la Mkaguzi wa Hesabu	Jinsi suala husika lilivyoshughulikiwa
Madeni na gharama nyinginezo zinazotarajiwa kukabiliwa (Yaendelea)	
	• Tulithamini ushauri wa kisheria kutoka kwa wanasheria wa nje kupinga msingi uliotumiwa wakurugenzi kufanya maamuzi muhimu. Katika hali ambapo hakukuhitajika kutengwa hela za gharama zilizotarajiwa, tulizingatia ufaafu na ukamilifu wa fedha zilizotengwa na kampuni kuhusiana na hasara ambayo ilibashiriwa.
Udhibiti kwa matumizi ya Teknolojia ya habari na mawasiliano (IT)	
Kuanzia Januari Mosi, 2016, Kampuni ya HFC Limited ilizingatia faida kama mfumo muhimu zaidi. Kutokana na hatari nyingi ambazo zinahusishwa na uboreshaji wa mfumo na utaratibu mzima kuhusu wa kuhamisha data au takwimu muhimu, tulitambua mifumo ya IT na udhibiti wayo kuhusu utoaji wa habari za kifedha kuwa suala muhimu zaidi la ukaguzi. Kuna hatari kwamba taratibu za ukaguzi za kiotomati kwa kutumia teknolojia zinazoendeshwa na wafanyakazi hazikupangwa vyema na wala hazikuwa zikifanya kazi inavyotakikana.	• Katika sehemu hii taratibu zetu za ukaguzi zilijumuisha, tathmini ya utaratibu wa uhamishaji wa data, kufanyia majaribio udhibiti wa IT katika ufikiaji na matumizi ya mfumo husika kwa kutumia kompyuta kupitia programu fulani zinazohitajika kuhakikisha kwamba operesheni zinaendeshwa kwa njia sahihi ili kuzuia hatari ya kufanya makossa katika ripoti za kifedha. • Kwa msaada wa wataalamu wetu wa masuala ya teknolojia, tulifanyia majaribio mifumo ya kiusalama kwa kubainisha iwapo mabadiliko yaliyofanywa kwenye mfumo mzima yaliidhinishwa kwa namna sahihi na pia kutathmini iwapo vizuizi muhimu viliwekwa katika mchakato mzima wa kufikia mfumo wa habari. Hili lilifanywa kwa kufanyia majaribio idhini zilizokabidhiwa wafanyakazi waliotwikwa jukumu la kuutumia mfumo huo wa habari za kifedha. • Mahali ambapo tuliona haja ya kushirikisha taratibu nyinginezo, tulifaulu kutumia mifumo ya udhibiti wa kawaida kama vile kuwianisha mfumo wa habari kielektroniki na vyanzo vinginevyo vya habari kama vile, kuzidisha ukubwa wa viwango vya majaribio ya ukaguzi wetu, ili kupata ushahidi wa kutosha wa ukaguzi kuhusiana na rekodi za kifedha zilizotumiwa.

Maelezo mengine:

Wakurugenzi wana wajibu wa maelezo mengine. Maelezo mengine yanahusisha habari zilzizowekwa kwenye ripoti ya mwaka lakini hazihusu taarifa za matumizi ya pesa na ripoti ya wakaguzi wetu wa pesa.

Maoni yetu kuhusu taarifa za kifedha hayahusu maelezo mengine na hatutoi hakikisho jingine lolote la uamuzi.

Kuhusiana na taarifa yetu ya ukaguzi wa pesa, jukumu letu ni kusoma maelezo mengine na kwa kufanya hivyo kuzingatia endapo maelezo hayo yanafaa au kuwiana na taarifa za matumizi ya pesa au ufahamu wetu uliopatikana wakati wa uhasibu au kwa njia nyingine kuonekana kama yanayopotosha.

Endapo itapimwa kwa mujibu wa kazi tulizofanya, tutahitimisha kwa kauli kwamba kuna upotovu kuhusiana na maelezo haya mengine na tunafaa kuripoti swala hili. Hatuna lolote kuripoti kuhusiana na swala hili.

RIPOTI YA WAKAGUZI WA KIBINAFSI KWA WANACHAMA (Yaendelea)

Ripoti ya Ukaguzi wa Taarifa za Matumizi ya Pesa (Yaendelea)
Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa (Yaendelea)

Kama ilivyoelezwa kupitia ukurasa wa 55, wakurugenzi wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa vya utoaji ripoti za kifedha na kwa njia inayohitajika na sheria za makampuni nchini Kenya ya mwaka 2015 na kwa uthibiti wa ndani ambao wataona unafaa kuandaa taarifa za matumizi ya pesa ambazo hazina dosari yoyote iwe ni kutokana na udanganyifu au makosa.

Wakati wa kuandaa taarifa ya matumizi ya pesa , wakurugenzi wana wajibu wa kufanya tathmini uwezo wa kampuni kuendelea, mambo yanayotiliwa shaka na kutumia mashaka hayo kama msingi wa kufanya uhasibu isipokuwa pale wakurugenzi aidha wawe na nia ya kufunga shughuli za kundi au kusitisha shughuli au wakose njia nyingine ila kufanya hivyo. Wakurugenzi wana wajibu wa kusimamia shughuli za utoaji ripoti za kifedha za kundi.

Wajibu wa Wahasibu kwa ukaguzi wa taariza za matumizi ya pesa.

Dhamira yetu ni kupata uhakika halisi kuhusu endapo taarifa za matumizi ya pesa kwa ujumla hazina upotovu wowote iwe ni kutoakana na udanganyifu au makosa na kutoa ripoti ya wakurugenzi inayojumuisha maoni yetu. Uhakika halisi ni hakikisho a juu lakini si hakikisho kwamba uhasibu uliofanywa kwa mujibu wa ISAs utatumika daima taarifa zisizo sahihi wakati ambapo zipo. Utoaji wa ripoti zisizo sahihi unaweza kutokea kutokana na udanganyofu au makosa na huchukuliwa kuwa taarifa endapo mtu binafsi au kwa jumla wanaweza kutarajiwa kuchochea maamuzi ya kiuchumi ya watumizi yaliyotokana na msingi wa taarifa hizi za matumizi ya pesa.

Kama sehemu ya ukaguzi wetu kufungamana na ISAs, tumetoa uamuzi wa kitaalamu na kudumisha utaalamu wakati wote wa ukaguzi wa pesa. Pia:

- Tumetambua raslimali na hatari za utaoji wa taarifa zisizo sahihi za matumizi ya pesa iwe ni kutokana na udanganyifu au makosa , ubunifu na kufanya tahartibu za uhasibu zitakazotoa suluhu la athari hizo na kutafuta ushahidi wa ukaguzi ambao utatosha na halisi kusimamia msingi wa maoni yetu. Athari za kutotambua habari zisizo sahihi kutokana na udanganyifu ni wa juu kuliko ule unaotokana na makosa, kwani udanganyifu unaweza kuhusisha hila za pamoja, ulaghai, makosa ya kimakusudi, vidokezo visvyo vya kweli au muingiliano wa ndani wa ukaguzi wa pesa.

- Kutafuta ufahamu wa ukaguzi wa ndani ambao ni muhimu kwa ukaguzi wa pesa ili kuandaa taratibu za ukaguzi ambao unahitajikalakini si kwa madhumuni ya kutoa maoni kuhusiana na uwezo wa ukaguzi wa ndani wa kundi.

- Kufanya tathmini ya ukweli ya matumizi ya sera za uhasibu zilizotumika na uhalisi wa makadirio yanayohusiana na fichuzi zilizotolewa na wakurugenzi.

- Kutathmini ukweli wa wakurugenzi kuhusu mashaka ya kuendelea kwa msingi wa uhasibu na kwa kuetegemea ushahidi wa hesabu za pesa uliopatikana endapo kuna hofu kuhusiana na taarifa au hali ambazo zinaweza kuleta mashaka kuhusiana na uwezo wa kundi kuendelea. Endapo tutatoa maoni kwamba kuna wasi wasi, tutahitajika kutoa tahadhari kupitia ripoti yetu ya uhasibu kuhusiana na fichuzi zilizoko kwenye taarifa ya matumizi ya pesa ama kweli fichuzi hizo hazitoshi kuandaa maoni yetu. Maoni yetu yatategemea ushahidi wa ukaguzi wa pesa hadi tarehe ya kuandaliwa kwa ripoti yetu ya uhasibu. Hata hivyo, maswala ya siku za usoni au hali yanaweza kupelekea kundi kutoendelea kuhudumu.

- Kufanyia tathmini ripoti nzima , muundo na maelezo ya taarifa za matumizi ya pesa zikiwemo fichuzi na endapo taarifa ya matumizi ya pesa inatoa hali halisi ya shughuli kwa hali itakayotoa maelezo ya haki.

- Kutoa hali halisi ya ushahidi wa uhasibu kuhusiana na maelezo ya kifedha kwenye taarifa au shughuli za kibiashara ndani ya kundi ili kutoa maoni ya taarifa za kifedha.

RIPOTI YA WAKAGUZI WA KIBINAFSI KWA WANACHAMA (Yaendelea)

Ripoti ya Ukaguzi wa Taarifa za Matumizi ya Pesa (Yaendelea)
Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa (Yaendelea)

Tunawasiliana na wakurugenzi kuhusu miongoni mwa maswala yanayohusiana na malengo yaliyolengwa na wakati wa kufanya ukaguzi wa pesa na fichuzi muhimu za uhasibu yakiwemo mapungufu katika uthibiti wa ndani ambao tutatambua wakati wa ukaguzi wetu.

Pia tunawapa wakurugenzi taarifa ambayo tuliyojumuisha pamoja na mahitaji ya kimaadili kuhusiana na uhuru na kuwapa maelezo kuhusu ushirikiano wote na maswala mengine ambayo yatazingatiwa kuwa muhimu kwa uhuru wetu na pale inapohitajika na kinga husika.

Ripoti kuhusu mahitaji mengine ya kisheria

Kama inavyohitahika na sheria za makampuni nchini Kenya ya mwaka 2015, kwa mujibu wa ukaguzi wetu, tunaripoti kwenu kwamba;

(i) Tumepata maelezo na ufafanuzi ambao kwa ufahamu wetu na imani ulikuwa muhimu kwa madhumuni ya ukaguzi wetu wa kifedha
(ii) Kwa maoni yetu, uwekaji bora wa vitabu vya hesabu umezingatiwa na kundi kama inavyodhihirika kupitia ukaguzi wetu wa vitabu hivyo; na
(iii) Taarifa ya kundi kuhusu hali ya kifedha na taarifa ya faida na hasara na mapato mengine ya kina ya kundi zinawiana na vitabu vya akaunti.

Mshirika aliyehusishwa na ukaguzi ambao ulipelekea ripoti hii ya ukaguzi wa kujitegemea wa pesa ni FCPA Eric Aholi-P/1471.

Tarehe: 27 Februari 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KES' 000	2015 KES' 000
Interest income	7	8,607,499	8,098,136
Interest expense	7	(4,673,384)	(4,486,182)
Net interest income		**3,934,115**	**3,611,954**
Impairment losses on mortgage and advances	18(c)	(699,166)	(503,771)
Net interest income after impairment losses on mortgage and advances		**3,234,949**	**3,108,183**
Non-interest income	8	755,549	1,171,089
Non-interest expenses	9	(2,642,618)	(2,608,766)
Share of profit in joint ventures	19	17,773	83,012
Profit before taxation	10	**1,365,653**	**1,753,518**
Income tax expense	11	(459,824)	(556,549)
Net profit after tax for the year		**905,829**	**1,196,969**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of available-for-sale investments	31(e)	(24,167)	(19,190)
Related tax		6,955	5,757
		(17,212)	(13,433)
Total comprehensive income for the year		**888,617**	**1,183,536**
Basic and diluted earnings per share – KES	12	**2.59**	**3.43**
Dividends per share – KES	13	**0.50**	**1.30**
Total number of shares		**349,382**	**348,897**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KES' 000	2015 KES' 000
ASSETS			
Cash and balances with banks	15	5,029,859	5,387,083
Placements with other banks	16	1,616	4,580,142
Investment in government securities	17	4,085,550	2,150,981
Mortgage and advances to customers (Net)	18(a)	54,469,605	53,021,022
Investment in joint ventures	19(b)	1,280,110	1,080,213
Other assets	20	1,504,486	1,324,544
Housing development projects	21	2,000,304	1,319,204
Property and equipment	22(a)	1,458,087	1,341,930
Prepaid operating lease rentals	23	44,751	45,396
Intangible assets	24	1,212,626	819,147
Tax recoverable	11(b)	86,911	13,421
Deferred tax asset	25(a)	756,235	576,351
TOTAL ASSETS		**71,930,140**	**71,659,434**
LIABILITIES			
Customers' deposits	27	38,707,026	41,665,085
Other liabilities	28	2,136,478	657,273
Tax payable	11(b)	4	110,068
Deferred tax liability	25(a)	-	43
Dividends – payable		60,755	63,949
Loans and borrowings	29	9,518,705	8,327,933
Corporate bond	30	10,217,910	10,212,442
		60,640,878	**61,036,793**
SHAREHOLDERS' EQUITY			
Share capital	31	1,746,908	1,744,483
Reserves (Pages 70 & 71)	31	9,491,604	8,827,408
Shareholders' income notes and loans	32	50,750	50,750
		11,289,262	**10,622,641**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**71,930,140**	**71,659,434**

The financial statements set on pages 66 to 139 were approved by the Board of Directors on 27 February, 2017 and were signed on its behalf by:

Frank Ireri: ________________________
Director

Benson Wairegi: ________________________
Director

Felister Kembi: ________________________
Director

Regina Anyika: ________________________
Company Secretary

The notes set out on pages 74 to 139 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KES' 000	2015 KES' 000
ASSETS			
Cash and balances with banks	15	13,423	30,973
Placement with other banks	16	-	5,000
Investment in subsidiaries	19(a)	9,958,782	9,958,782
Other assets	20	25,922	30,900
Property and equipment	22(b)	246	203
Tax recoverable	11(b)	1,130	-
TOTAL ASSETS		**9,999,503**	**10,025,858**
LIABILITIES			
Other liabilities	28	53,580	17,046
Tax payable	11(b)	-	63,354
Dividends - payable		60,755	63,949
		114,335	**144,349**
SHAREHOLDERS' EQUITY			
Share capital	31	1,746,908	1,743,983
Reserves (Pages 72 & 73)		8,138,260	8,137,526
		9,885,168	**9,881,509**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9,999,503**	**10,025,858**

The financial statements set on pages 66 to 139 were approved by the Board of Directors on 27 February, 2017 and were signed on its behalf by:

Frank Ireri: ____________________
Director

Benson Wairegi: ____________________
Director

Felister Kembi: ____________________
Director

Regina Anyika: ____________________
Company Secretary

The notes set out on pages 74 to 139 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KES' 000	2015 KES' 000
Net cash flows from operating activities	33(a)	**(4,860,535)**	**(5,806,718)**
INVESTING ACTIVITIES			
Purchase of property and equipment	22	(96,734)	(90,004)
Investment in joint ventures		(182,124)	(824,652)
Capital work in progress	22	(172,872)	(63,061)
Proceeds from sale of equipment		3,963	-
Additions to intangible assets	23	(566,062)	(308,832)
Net cash used in investing activities		**(1,013,829)**	**(1,286,549)**
FINANCING ACTIVITIES			
Receipts of borrowed funds		2,821,096	2,025,000
Payments of borrowed funds		(1,624,856)	(627,737)
Share ownership Plan receipts		4,850	3,369,222
Dividend paid		(230,041)	(471,252)
Net cash flow from financing activities		**971,049**	**4,295,233**
Net decrease in cash and cash equivalents	33(b)	**(4,903,315)**	**(2,798,034)**
Cash and cash equivalents as at 1 January		7,768,130	10,566,164
Cash and cash equivalents as at 31 December		**2,864,815**	**7,768,130**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

2016:	Share capital KES' 000	Revaluation reserve KES' 000	Share premium KES' 000	Proposed dividends KES' 000	Statutory credit risk reserve KES' 000	Retained profits KES' 000	Available-for-sale reserve KES' 000	Total KES' 000
At 1 January 2016	1,744,483	701,463	4,339,712	226,783	393,046	3,225,082	(58,678)	10,571,891
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	905,829	-	905,829
Other comprehensive income								
Change in fair value of available-for-sale investment	-	-	-	-	-	-	(24,167)	(24,167)
Related tax	-	-	-	-	-	-	6,955	6,955
Transfer from statutory credit risk reserve	-	-	-	-	60,441	(60,441)	-	-
Total comprehensive Income	**-**	**-**	**-**	**-**	**60,441**	**845,388**	**(17,212)**	**888,617**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,425	-	2,425	-	-	-	-	4,850
Dividend paid – 2015	-	-	-	(226,783)	-	(63)	-	(226,846)
Interim dividend paid - 2016								
Proposed dividends	-	-	-	174,691	-	(174,691)	-	-
Total transactions with owners for the year	**2,425**	**-**	**2,425**	**(52,092)**	**-**	**(174,754)**	**-**	**(221,996)**
Balance as at 31 December 2016	**1,746,908**	**701,463**	**4,342,137**	**174,691**	**453,487**	**3,895,716**	**(75,890)**	**11,238,512**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2015:	Share capital KES' 000	Revaluation reserve KES' 000	Share premium KES' 000	Proposed dividends KES' 000	Statutory credit risk reserve KES' 000	Retained profits KES' 000	Available-for- sale reserve KES' 000	Total KES' 000
At 1 January 2015	1,157,900	701,568	1,557,073	173,685	64,021	2,899,130	(45,245)	6,508,132
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	1,196,969		1,196,969
Other comprehensive income								
Reversal of surplus on revaluation of land and buildings		(105)	-	-	-	-	-	(105)
Change in fair value of available-for-sale investment	-	-	-	-	-	-	(19,190)	(19,190)
Deferred tax on change in fair value of available-for-sale investment	-	-	-	-	-	-	5,757	5,757
Transfer from statutory credit risk reserve	-	-	-	-	329,025	(329,025)	-	-
Total comprehensive income	**-**	**(105)**	**-**	**-**	**329,025**	**867,944**	**(13,433)**	**1,183,431**
Transactions with owners, recorded directly in equity								
Rights issue & employee share ownership plan	586,583	-	2,782,639	-	-	-	-	3,369,222
Dividend paid – 2014	-	-	-	(173,685)	-	(88,849)	-	(262,534)
Interim dividend paid – 2015	-	-	-	-	-	(226,360)	-	(226,360)
Proposed dividends	-	-	-	226,783	-	(226,783)	-	-
Total transactions with owners for the year	**586,583**	**-**	**2,782,639**	**53,098**	-	**(541,992)**	**-**	**2,880,328**
Balance as at 31 December 2015	**1,744,483**	**701,463**	**4,339,712**	**226,783**	**393,046**	**3,225,082**	**(58,678)**	**10,571,891**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

2016:	Share capital KES' 000	Revaluation reserve KES' 000	Share premium KES' 000	Proposed dividends KES' 000	Statutory credit risk reserve KES' 000	Retained profits KES' 000	Available-for-sale reserve KES' 000	Total KES' 000
At 1 January, 2016	1,744,483	-	4,339,712	226,783	-	3,570,531	-	9,881,509
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	225,655	-	225,655
Total comprehensive Income	**-**	**-**	**-**	**-**	**-**	**225,655**	**-**	**225,655**
Transactions with owners, recorded directly in equity								
Employee share ownership plan	2,425	-	2,425	-	-	-	-	4,850
Dividend paid – 2015	-	-	-	(226,783)	-	(63)	-	(226,846)
Interim dividend paid - 2016	-	-	-	-	-	-	-	-
Proposed dividends	-	-	-	174,691	-	(174,691)	-	-
Total transactions with owners for the year	**2,425**	**-**	**2,425**	**(52,092)**	**-**	**(174,754)**	**-**	**(221,996)**
Balance as at 31 December, 2016	**1,746,908**	**-**	**4,342,137**	**174,691**	**-**	**3,621,432**	**-**	**9,885,168**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2015:	Share capital KES' 000	Revaluation reserve KES' 000	Share premium KES' 000	Proposed dividends KES' 000	Statutory credit risk reserve KES' 000	Retained profits KES' 000	Available-for-sale reserve KES' 000	Total KES' 000
At 1 January 2015	1,157,900	701,568	1,557,073	173,685	64,021	2,616,281	(45,245)	6,225,283
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	747,447	-	747,447
Other comprehensive income								
Surplus on revaluation of Land and buildings	-	(701,568)	-	-	-	701,463	-	(105)
Change in fair value of available-for-sale investments		-	-	-	-	-	28,556	28,556
Realised on transfer						(16,689)	16,689	-
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	-	-	-
Transfer from statutory credit risk reserve	-	-	-	-	(64,021)	64,021	-	-
Total comprehensive income	**-**	**(701,568)**	**-**	**-**	**(64,021)**	**1,496,242**	**45,245**	**775,898**
Transactions with owners, recorded directly in equity								
Rights issue & employee share ownership plan	586,583	-	2,782,639	-	-	-	-	3,369,222
Dividend paid – 2014	-	-	-	(173,685)	-	(88,849)	-	(262,534)
Interim dividend paid - 2015	-	-	-	-	-	(226,360)	-	(226,360)
Proposed dividends	-	-	-	226,783	-	(226,783)	-	-
Total transactions with owners for the year	**586,583**	**-**	**2,782,639**	**53,098**	**-**	**(541,992)**	**-**	**2,880,328**
Balance as at 31 December 2015	**1,744,483**	**-**	**4,339,712**	**226,783**	**-**	**3,570,531**	**-**	**9,881,509**

The notes set out on pages 74 to 139 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. REPORTING ENTITY

HF Group Limited is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The address of the company's registered office is shown on Page 5. The consolidated financial statements of the Group as at and for the year ended 31 December 2016 include the Company and its subsidiaries (together referred as the "Group" and individually as "Group entities"). The Group is primarily involved in mortgage lending, provision of corporate and retail banking solutions, property development, bancassurance services, and social investment.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in compliance with the Kenyan Companies Act, 2015.

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis of accounting except for the following:

Note 21 - available-for-sale financial assets are measured at fair value; and

Note 22 - land and buildings are measured at revalued amounts.

(c) Functional and presentation currency

These consolidated financial statements are presented in Kenya shillings (KES), which is the Group's functional currency.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya Shillings. Except as otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (KES'000).

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may ultimately differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 19 – consolidation: whether the Group has de facto control over an investee;

Note 19 – classification of the joint arrangement; and

Note 35 – lease classification.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December, 2016 is included in the following notes:

- Note 25 – recognition of deferred tax assets: availability of future taxable profits against which carryforward tax losses can be used;
- Notes 34 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 6.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

(a) Basis of consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Interest in equity-accounted investees

Investments in joint ventures are accounted for using the equity method of accounting in the financial statements. These are undertakings in which the Group has between 20% and 50% of the voting rights and over which the Group exercises significant influence but which it does not control. Under the equity method, the Group's share of its joint ventures' post-acquisition profits or losses is recognised in profit or loss and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition total comprehensive income or loss (including dividends received from the associate) is adjusted against the carrying amount of the investment.

Losses of a joint venture in excess of the Group's interest in that joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations to make payments on behalf of the associate.

UnrealiSed gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealiSed gains, but only to the extent that there is no evidence of impairment.

Investments in joint ventures are accounted at cost less impairment loss in the separate financial statements of the Group. They are initially recognised at cost which includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(v) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue recognition

Income is recognised on an accrual basis.

(i) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and,
- Interest on available-for-sale investment securities on an effective interest basis.

(ii) Non interest income

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

The income comprises of appraisal and facility fees charged on advances, commission charged on use of channels and ledger fees levied on current and savings accounts.

Sale of houses

Revenue is recognised from sale of houses in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (Continued)

(ii) Non interest income (Continued)

Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(c) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at the rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the reporting date. The resulting realised and unrealised differences from conversion and translations are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of the transaction.

(d) Property and equipment

(i) Recognition and measurement

All categories of property and equipment are initially recorded at cost. Property and equipment is subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by external independent valuers. Purchased software that is integral to the functioning of related equipment is capitalised as part of that equipment. Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The cost of day to day servicing of property and equipment are recognised in the profit and loss.

(ii) Depreciation

Freehold land is not depreciated.

Depreciation is calculated on a straight line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives as follows:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment

(ii) Depreciation (continued)

Computers	20%
Motor vehicles	20%
Office equipment, fixtures and fittings	5% - 20%

Buildings on leasehold land are depreciated over the remaining period of the lease. Buildings on freehold land are depreciated over fifty years.

Depreciation method, useful lives and residual values are reassessed and adjusted if appropriate at each reporting date.

(iii) Subsequent costs

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

(iv) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to the carrying amount and are recognised in profit or loss in the period in which they arise.

(e) Intangible assets

Where computer software is not an integral part of the related computer hardware it is recognised as an intangible asset. The software is stated on the statement of financial position at costs less accumulated amortisation and impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software costs are amortised over the estimated useful life, currently estimated at five (5) to eight (8) years, on a straight line basis from the date the software is available for use.

(f) Prepaid operating lease rental

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases arrangements (whether pre-paid or post-paid) are charged to profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits

(i) Employee Retirement Benefits Plan

The Group operates a defined contribution scheme whose funds are held in a separate trustee administered and guaranteed scheme managed by an approved insurance company. The pension plan is funded by contributions from the employees and the Group. The Group's contributions are charged to profit or loss in the year to which they relate.

The employees and the Group also contribute to the National Social Security Fund, a national retirement benefit scheme. Contributions are determined by the local statute and the Group's contributions are charged to profit or loss in the year to which they relate. The Group has no further obligation once the contributions have been paid.

(ii) Employee Share Ownership Plan (ESOP)

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(iii) Termination Benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits (Continued)

(iv) Short-term benefits

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

(h) Taxation

Tax on the operating results for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the tax asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is calculated on the basis of the tax rates enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins at hand, unrestricted balances held with Central Bank of Kenya, balances with commercial banks and highly liquid financial assets with original maturities of less than three months on date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

(ii) Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available-for-sale; or
- Fair value through profit and loss

Management determines the classification of its investments at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification (Continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. These include mortgage and advances to customers, staff loans and placements with other banks. Loans and advances are subsequently measured at their amortised cost using the effective interest method.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held-to-maturity or (c) financial assets at fair value through profit and loss.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

Other financial liabilities

The Group classifies financial liabilities other than financial guarantees and loan commitments at fair value less any directly attributable transaction costs. Subsequent to initial recognition these liabilities are measured at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(iii) Identification and measurement of impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the profit or loss. Changes in cumulative impairment losses attributable to the effective interest method are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(iii) Identification and measurement of impairment of financial assets (Continued)

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income directly in equity.

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(k) Impairment for non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and development projects, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment for non-financial assets (Continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(l) Contingent liabilities

Significant litigations and claims against the Group, letters of credit, acceptances, guarantees and performance bonds are accounted for and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is recognised in profit or loss.

(m) Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Group are not assets of the Group and have a nil effect in the statement of financial position.

(n) Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Committee (EXCO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(o) Dividends

Dividends are recognised as a liability in the year in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(p) Earnings per share

Earnings per share is calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share is the same as the basic earnings per share. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year there were no significant outstanding shares with dilutive potential.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group and Company.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for joint ventures and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group and Company.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS *28 Investments in Joint ventures and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in joint ventures or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (Continued)

fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January, 2016. The adoption of these changes did not have a significant impact on the financial statements of the Group and Company.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendment applies for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes does have a significant impact on the financial statements of the Group and Company.

(ii) New standards, amendments and interpretations not yet adopted

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January, 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Group and Company is assessing the potential impact on the financial statements resulting from the application of IAS 7.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(ii) New standards, amendments and interpretations not yet adopted (Continued)

Disclosure Initiative (Amendments to IAS 7) (Continued)

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single principle based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group and Company is assessing the potential impact on the financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted. The Group and Company is assessing the potential impact on the financial statements resulting from the application of IFRS 9. The impact is expected to be significant to the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(ii) New standards, amendments and interpretations not yet adopted (Continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The Group and Company are assessing the potential impact on the financial statements resulting from the application of the IFRS 2 amendments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(ii) New standards, amendments and interpretations not yet adopted (Continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 *'Insurance Contracts' (Amendments to IFRS 4)* provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and
- An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes is not expected to be significant to the amounts and disclosures of the Group and Company's financial statements.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(ii) New standards, amendments and interpretations not yet adopted (Continued)

IFRS 16: Leases - Continued

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) Short-term leases (i.e. leases of 12 months or less) and;

(b) Leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January, 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The adoption of these changes will affect the amounts and disclosures of the Group and Company's financial statements. The Group and Company is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards, amendments and interpretations (Continued)

(ii) New standards, amendments and interpretations not yet adopted (Continued)

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The Group and Company are assessing the potential impact on the financial statements resulting from the application of these amendments.

4. FINANCIAL RISK MANAGEMENT

Principles

HF Group Limited faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Group's risk exposure, actions to limit risk and the constant monitoring of risk.

The overarching aim of risk management is to ensure that all risks assumed in the course of the Group's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Group. Risk management and monitoring are implemented via the Group's risk management and risk control process and the organization structure corresponds to the CBK Risk Management Guidelines.

In order to ensure continuous improvement of risk management at all times the following key risk principles have been adopted and are applied:

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Company and divisional levels, as well as by enforcing consistent operating limits for individual business activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

Principles (Continued)

- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the risk management framework. It is further supplemented by specific guidelines for measuring and monitoring individual risk types as issued by the CBK Risk Management Guidelines.

The section below provides details of the Group's exposure to various risks and describes the methods used by management to control risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk mainly interest risk and operational risk. HFC Limited, the mortgage finance subsidiary is mainly exposed to these risks.

(a) Credit risk

Credit risk exposure is at HFC Limited which is the mortgage finance subsidiary of the group. Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with HFC Limited or if an obligor otherwise fails to perform as agreed.

Management of credit risk

HFC Ltd is subject to credit risk through its lending and investing activities.

Credit risk is the risk of financial loss to HFC Limited if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from HFC Limited's loan and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, HFC Limited considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk is HFC Limited's largest risk and considerable resources, expertise and controls are devoted to managing it and comprehensive strategies, policies and procedures have been developed to effectively manage this risk.

The HFC Limited Board provides effective oversight of the overall credit portfolio through the Board Credit Committee (BCC). This committee is the decision making body with responsibility for loans that exceed the scope of authority of the management lending committee. Acting on the basis of the powers granted to it by the Board, the BCC decides on the overall lending limits for HFCLimited and approves the credit risk strategies to be adopted.

HFC Limited has adequate Board approved Credit Policies which are reviewed annually and which cover all aspects of credit risk management (loan origination, analysis and appraisal, acceptable collateral, approval authorities and non-performing loan management).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

At the management level, there is a Credit Risk Department staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this department there is a fully fledged loan recoveries and rehabilitation unit with the responsibility of formulating workout solutions and restructuring loans in distress.

HFC Limited's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. HFC Limited is also exposed to credit risk on debt investments. The current credit exposure in respect of the instruments is equal to the carrying amount of these assets in the statement of financial position.

The risk that counterparties to instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, HFC Limited deals with counterparties of good credit standings and obtain collateral.

Management of credit risk

HFC Limited also monitors concentration of credit risk that arises by customer in relation to loan and advances to customers. HFC Limited has no significant exposure to any individual customer or counterparty.

Impaired loans and advances

Impaired loan and advances are loans and advances for which HFC Limited determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded as substandard to loss categories in HFC Limited's internal credit risk grading system.

Past due but not impaired loans and advances

Past due but not impaired loans are those for which contractual interest or principal payments are past due but not for more than three months and HFC Limited believes that impairment is not appropriate on the basis that in the Group's assessment the total outstanding balances are recoverable and the level of security/collateral available and/or the stage of collection of amounts owed to HFC Limited is adequate. Any amounts past due for more than three months are considered impaired.

Loans and advances with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where HFC Limited has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category until satisfactory performance after restructuring.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Allowances for impairment

HFC Limited establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

HFC Limited writes off a loan/security balance (and any related allowances for impairment losses) when HFC Limited credit determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial positionsuch that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Exposure to credit risk	Loans and advances		Investment in government securities		Placement with other banks	
	2016	2015	2016	2015	2016	2015
	KES' 000	KES' 000	KES' 000	KES' 000	KES' 000	KES'000
Impaired loans and advances	6,193,462	4,097,356	-	-	-	-
Gross amount allowance for impairment	(2,421,649)	(1,778,253)	-	-	-	-
Carrying amount	**3,771,813**	**2,319,103**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	50,821,284	50,818,422	4,085,550	2,150,981	1,616	4,580,142
Allowance for impairment incurred but not reported	(123,492)	(116,503)	-	-	-	-
Carrying amount	**50,697,792**	**50,701,919**	**4,085,550**	**2,150,981**	**1,616**	**4,580,142**
Net carrying amount	**54,469,605**	**53,021,022**	**4,085,550**	**2,150,981**	**1,616**	**4,580,142**

In addition to the above, HFC Limited has entered into lending commitments of KES 6,434,128,319 (2015 – KES 7,933,776,000) with various counter parties.

The carrying amounts of cash and bank balances, investments in government securities, placements and balances with other banking institutions and the amounts due from related companies equal the maximum exposure to risk. In addition, these balances are neither past due nor impaired.

HFC Limited holds collateral against loans and advances to customers in the form of mortgage interests over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not held over placements with banks and investment in government securities as these are considered to be risk free.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

An estimate of the fair values of collateral against loans and advances to customers is shown below:

	2016	2015
	KES' 000	KES' 000
Against impaired accounts	10,432,080	6,540,299
Against accounts not impaired	178,162,617	166,904,350
	188,594,697	**173,444,649**

Details of financial and non-financial assets obtained by HFC Ltd during the year by taking possession of collateral held against loans and advances held at the year-end are shown below:

	2016	2015
	KES' 000	KES' 000
Properties	188,541,267	173,362,792
Secured by Cash	53,430	81,857
	188,594,697	**173,444,649**

HFC Ltd's policy is to pursue timely realisation of the collateral in an orderly manner. HFC Ltd generally does not use the non-cash collateral for its own operations.

(b) Liquidity risk

Liquidity risk is the current or prospective risk to earnings and capital arising from the institution's failure to meet its maturing obligations when they fall due without incurring unacceptable losses.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To this end, there is a Board approved policy to effectively manage liquidity at all times to meet loan demand and deposit withdrawals, regulatory requirements (liquidity ratio), unexpected outflow/non-receipt of expected inflow of funds, settlement of periodic debt repayment obligations as well as ensure adequate diversification of funding sources. The Asset & Liability Committee (ALCO) undertakes statement of financial position liquidity management and scenario analysis as per the policy on a bi-weekly basis.

The Group has access to a diverse funding base. Funds are raised mainly from deposits, share capital, corporate bond and loans. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from financial institutions and commitments maturing within the next 91 days. Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting year were as follows:

	2016	2015
At 31 December	21.05%	28.04%
Average for the year	20.48%	24.70%
Maximum for the year	26.85%	28.04%
Minimum for the year	16.36%	22.27%

Contractual maturity analysis of financial assets and liabilities

The table below analyses the liquidity position of the Group's financial assets and liabilities:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

31 December 2016:	Due on demand KES' 000	Due within 3 months KES ' 000	Due between 3 and 12 months KES' 000	Due between 1 and 5 years KES' 000	Due after 5 years KES' 000	Total KES' 000
Financial assets						
Cash balances	5,029,859	-	-	-	-	5,029,859
Placements with other banks	1,616	-	-	-	-	1,616
Investment in government securities	-	2,462,568	550,000	1,072,982	-	4,085,550
Net loan and advances to customers	341,664	3,235,195	4,758,161	7,059,791	39,074,794	54,469,605
Total	**5,373,139**	**5,697,763**	**5,308,161**	**8,132,773**	**39,074,794**	**63,586,630**
Financial liabilities						
Customer deposits	9,674,621	18,156,617	3,975,739	97,555	6,802,494	38,707,026
Loans and borrowings	-	627,422	1,159,085	4,805,060	2,927,138	9,518,705
Corporate bond	-	-	7,248,810	2,969,100	-	10,217,910
Government income notes	-	-	-	-	50,750	50,750
Total	**9,674,621**	**18,784,039**	**12,383,634**	**7,871,715**	**9,780,382**	**58,494,391**
Guarantees	864,463	48,331	114,775	25,260	-	1,052,829
Unrecognised loan commitments	-	3,410,631	3,023,497	-	-	6,434,128
At 31 December 2016	**(5,165,945)**	**(16,545,238)**	**(10,213,745)**	**235,798**	**29,294,412**	**(2,394,718)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

31 December 2015:	Due on demand KES' 000	Due within 3 months KES '000	Due between 3 and 12 months KES' 000	Due between 1 and 5 years KES' 000	Due after 5 years KES' 000	Total KES '000
Financial assets						
Cash balances	5,387,083	-	-	-	-	5,387,083
Placements with other banks	1,380,142	2,600,000	600,000	-	-	4,580,142
Investment in Government securities	-	527,999	550,000	1,072,982	-	2,150,981
Net loan and advances to customers	413,027	2,969,771	4,751,263	7,835,778	37,051,183	53,021,022
Total	**7,180,252**	**6,097,770**	**5,901,263**	**8,908,760**	**37,051,183**	**65,139,228**
Financial liabilities						
Customer deposits	10,176,275	22,867,146	2,414,894	107,643	6,099,127	41,665,085
Loans and borrowings	-	287,240	1,298,537	6,119,973	622,183	8,327,933
Corporate bond	-	-	212,442	10,000,000	-	10,212,442
Government income notes	-	-	-	-	50,750	50,750
Total	**10,176,275**	**23,154,386**	**3,925,873**	**16,227,616**	**6,772,060**	**60,256,210**
Guarantees	50	12,086	111,720	132,400	-	256,256
Unrecognised loan commitments	-	3,218,000	4,715,776	-	-	7,933,776
At 31 December 2015	**(2,996,073)**	**(20,286,702)**	**(2,852,106)**	**(7,451,256)**	**30,279,123**	**(3,307,014)**

(c) Market risk

Management of market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by risk management in its day-to-day monitoring activities.

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

31 December 2016:	Average interest rate	Due on demand KES' 000	Due within 3 months KES ' 000	Due between 3 and 12 months KES' 000	Due between 1 and 5 years KES' 000	Due after 5 years KES' 000	Total KES' 000
Financial assets							
Cash balances	0.0%	5,029,859	-	-	-	-	5,029,859
Placements with other banks	9.9%	1,616	-	-	-	-	1,616
Investment in Government securities	11.7%	-	2,462,568	550,000	1,072,982	-	4,085,550
Net Loans and advances to customers	13.7%	341,664	3,235,195	4,758,161	7,059,791	39,074,794	54,469,605
Total		**5,373,139**	**5,697,763**	**5,308,161**	**8,132,773**	**39,074,794**	**63,586,630**
Financial liabilities							
Customer deposits	7.3%	9,674,621	18,156,617	3,975,739	97,555	6,802,494	38,707,026
Loans and borrowings	10.4%	-	627,422	1,159,085	4,805,060	2,927,138	9,518,705
Corporate bond	10.2%	-	-	7,248,810	2,969,100	-	10,217,910
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**9,674,621**	**18,784,039**	**12,383,634**	**7,871,715**	**9,780,382**	**58,494,391**
Guarantees		864,463	48,331	114,775	25,260	-	1,052,829
Unrecognised Loans commitments		-	3,410,631	3,023,497	-	-	6,434,128
At 31 December 2016		**(5,165,945)**	**(16,545,238)**	**(10,213,745)**	**235,798**	**29,294,412**	**(2,394,718)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

31 December 2015:	Average interest rate	Due on demand KES '000	Due within 3 months KES '000	Due between 3 and 12 months KES '000	Due between 1 and 5 years KES '000	Due after 5 years KES '000	Total KES '000
Financial assets							
Cash balances		5,387,083	-	-	-	-	5,387,083
Placements with other banks	12.9%	1,380,142	2,600,000	600,000	-	-	4,580,142
Investment in Government securities	15.2%	-	527,999	550,000	1,072,982	-	2,150,981
Net loan and advances to customers	13.9%	413,027	2,969,771	4,751,263	7,835,778	37,051,183	53,021,022
Total		**7,180,252**	**6,097,770**	**5,901,263**	**8,908,760**	**37,051,183**	**65,139,228**
Financial liabilities							
Customer deposits	7.01%	10,176,275	22,867,146	2,414,894	107,643	6,099,127	41,665,085
Loans and borrowings	8.9%	-	287,240	1,298,537	6,119,973	622,183	8,327,933
Corporate bond	10.17%	-	-	212,442	10,000,000	-	10,212,442
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**10,176,275**	**23,154,386**	**3,925,873**	**16,227,616**	**6,772,060**	**60,256,210**
Guarantees		50	12,086	111,720	132,400	-	256,256
Unrecognised loan commitments		-	3,218,000	4,715,776	-	-	7,933,776
At 31 December 2015		**(2,996,073)**	**(20,286,702)**	**(2,852,106)**	**(7,451,256)**	**30,279,123**	**(3,307,014)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The Company's exposure to foreign currency risk arose from assets denominated in US Dollars and was as follows as at 31 December:

All figures are in Kenya shillings (KES '000)

USD	2016	2015
Cash in bank	1,183,603	697,371
Loans and advances	5,791,673	5,373,510
Borrowings and other borrowed funds	(6,466,182)	(4,787,717)
Net statement of financial position exposure	**509,094**	**1,283,164**

EUR	2016	2015
Cash in bank	24,599	17,956
Loans and advances	18,613	19,622
Net statement of financial position exposure	**43,212**	**37,578**

GBP	2016	2015
Cash in bank	8,460	23,237
Loans and advances	63,862	42,601
Net statement of financial position exposure	**72,322**	**65,838**

The following significant exchange rate applied during the period:

	Average rates 2016	Closing rates 2016
US Dollar	101.45	102.50
EUR	112.30	108.05
GBP	137.59	126.54

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Foreign exchange risk (Continued)

	Average rates	Closing rates
	2016	2015
US Dollar	98.59	102.35
EUR	108.91	111.83
GBP	150.64	151.73

Sensitivity analysis on exchange rates

The Group is exposed to risk of loss arising from future potential adverse movements in exchange rates.

A 10 percent weakening of the Kenya Shilling against the US Dollar at 31 December 2016 would have had the equal but opposite effect on the US Dollar balances to the amounts shown above, on the basis that all other variables remain constant.

A 10 percent strengthening of the Kenya Shilling against the US Dollar at 31 December 2016 would have increased the profit for the period after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant.

	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2016				
USD 10% Movement	50,909	(50,909)	35,636	(35,636)
EUR 10% Movement	4,321	(4,321)	3,025	(3,025)
GBP 10% Movement	7,233	(7,233)	5,063	(5,063)

	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2015				
USD 10% Movement	(877,591)	877,591	(877,591)	877,591
EUR 10% Movement	(2,630)	2,630	(2,630)	2,630
GBP 10% Movement	(4,609)	4,609	(4,609)	4,609

(ii) Other price risk

The Group does not hold any financial instruments subject to price risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 within each business unit. The responsibility is supported by the development of overall Group standards for the management of operational risks. Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit committee and senior management of the Group.

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups to ensure compliance with the Group's risk limits. The Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions.

(e) Capital management

The Central Bank of Kenya sets and monitors capital requirements for banks and other non-bank financial institutions. In implementing the current capital requirements Central Bank of Kenya requires the Group to maintain a prescribed ratio of total risk weighted assets. This requirement is calculated for market risk in the portfolio of HFC Limited, the mortgage subsidiary of HF Group Limited .

The regulatory capital is analysed in two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and minority interest after deduction of goodwill and intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserves relating to unrealized gains on equity instruments classified as available for sale.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There has been no material change in the Group's management of capital during the year.

The regulatory capital position for HFC Limited, being the mortgage subsidiary of HF Group Limited, as at 31 December, 2016 was as follows:

	2016 KES '000	2015 KES '000
Tier 1 capital		
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	757,069	165,918
Deferred tax	(751,370)	(584,879)
	8,519,361	**8,094,701**
Tier 2 capital		
Collective allowances for impairment	453,487	393,046
Revaluation reserve	-	-
Qualifying subordinated liabilities	606,981	1,060,189
	1,060,468	**1,453,235**
Total regulatory capital	**9,579,829**	**9,547,936**
Risk weighted assets	**54,161,661**	**52,671,912**

Capital ratios	**2016**	**2015**
Total regulatory capital expressed as a percentage of total risk-weighted assets	17.7%	18.1%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	15.7%	15.4%

Central Bank of Kenya required HFC Limited to maintain a minimum core capital of KES 1 billion as at 31 December 2016.

HFC Limited is already compliant with this requirement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

5. OPERATING SEGMENTS

Operating segments are defined at HFC Limited and are organised in two main reporting segments: Retail and Corporate. This is based on the Group's management and internal reporting structure. The retail segment is further split between Retail loans and Retail deposits while the Corporate segment is split between Schemes mortgages, Projects, Short-term loans and Corporate deposits.

The following summary describes the operations of each HFC Limited's reportable segment:

- **Retail loans and advances:** This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers, micro loans, personal loans and it forms the major proportion of the loan lending book of HFC Limited.

- **Retail deposits:** This segment plays a critical role in the operations of HFC Limited sourcing for deposits from retail customers which are then used to finance the Group's loan products.

- **Schemes mortgages:** This segment is mainly responsible for arranging corporate mortgage packages with employers such that the employees of the participating companies can enjoy preferential interest rates on their mortgage loans.

- **Projects:** This segment provides lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.

- **Corporate deposits:** This segment is responsible for sourcing for deposits from corporate organisations.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the HFC Limited's EXCO.

Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of each.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

5. OPERATING SEGMENTS (Continued)

	Lending					
External revenues	Retail		Corporate		Total	
	2016	2015	2016	2015	2016	2015
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000
Interest income	5,811,297	4,730,896	2,795,828	3,369,218	**8,607,125**	**8,100,114**
Interest expense:						
- Retail	(3,182,997)	(1,797,898)	-	-	**(3,182,997)**	**(1,797,898)**
- Corporate	-	-	(1,460,757)	(2,720,635)	**(1,460,757)**	**(2,720,635)**
Net interest income	**2,628,300**	**2,932,998**	**1,335,071**	**648,583**	**3,963,371**	**3,581,581**
Non interest income	291,988	593,845	68,122	86,715	**360,110**	**680,560**
Reporting segment profit/(loss) before income tax	725,857	2,282,678	738,430	(462,764)	**1,464,287**	**1,819,914**
Loan disbursements	4,002,882	6,250,581	9,262,600	10,806,999	**13,265,482**	**17,057,580**
Loan sales	3,633,531	6,253,576	10,330,451	13,324,136	**13,963,981**	**19,577,712**
Deposits balances	19,892,197	24,021,600	18,422,437	17,288,030	**38,314,634**	**41,309,630**
Other material non cash items						
Impairment losses on mortgage and advances	(518,847)	(241,014)	(180,319)	(262,757)	**(699,166)**	**(503,771)**
Capital expenditure	94,522	137,703	78,048	204,998	**172,570**	**342,701**
Reportable segment assets	**46,090,732**	**29,966,851**	**22,794,315**	**38,841,803**	**68,885,047**	**68,808,654**
Reportable segment liabilities	**34,161,602**	**31,472,761**	**24,999,225**	**28,296,689**	**59,160,827**	**59,769,450**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

5. OPERATING SEGMENTS (Continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2016 KES '000	2015 KES '000
Net interest income		
Total net interest income for reportable segments	3,963,371	3,581,581
Other interest income adjustments	(29,256)	30,373
Consolidated net interest income	**3,934,115**	**3,611,954**
Non interest income		
Total non interest income for reportable segments	360,110	680,560
Other non interest income	395,439	490,529
Consolidated non interest income	**755,549**	**1,171,089**
Profit or loss		
Total profit or loss for reportable segments	1,464,287	1,819,913
Other profit or loss	(98,634)	(66,395)
Consolidated profit before income tax	**1,365,653**	**1,753,518**
Assets		
Total assets for reportable segments	68,885,047	68,808,654
Other assets	3,045,093	2,850,780
Consolidated total assets	**71,930,140**	**71,659,434**
Liabilities		
Total liabilities for reportable segments	59,160,827	59,769,450
Other liabilities	1,480,053	1,267,343
Consolidated total liabilities	**60,640,880**	**61,036,793**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function of HFC Limited.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

(ii) Income taxes

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical accounting estimates and assumptions (Continued)

In the process of applying the Group's accounting policies, management has made assumptions, estimations and judgements in determining:

- The classification of joint arrangements;
- The classification of financial assets;
- Lease classifications;
- Whether assets are impaired, recognition and measurement of provisions; and
- Depreciation rates for property and equipment.

7. INTEREST INCOME AND INTEREST EXPENSE

	2016	2015
Interest income	**KES '000**	**KES '000**
Arising from:		
Advances to customers	7,889,838	7,218,269
Placements with other banks	214,083	756,912
Treasury bonds	503,578	122,955
	8,607,499	**8,098,136**

Included in interest income on loan and advances for the year is a total of KES 671,950,810 (2015 – KES 590,695,957) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are available for sale and held to maturity.

	2016	2015
Interest expense	**KES '000**	**KES' 000**
Arising from:		
Customer deposits	2,959,587	2,857,720
Interest on borrowed funds	1,713,797	1,628,462
	4,673,384	**4,486,182**

8. NON INTEREST INCOME

Arising from:		
Fees and commission income	321,233	332,247
Rental income	50,066	54,409
House sales income	287,925	636,775
Other operating income	92,362	147,658
Gain on sale of property and equipment	3,963	-
	755,549	**1,171,089**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

9. NON INTEREST EXPENSES

Arising from:

	2016	2015
	KES' 000	KES'000
Salaries and employee benefits	1,071,977	1,035,091
Rental expenses	35,863	61,917
Deposit protection fund	65,685	55,091
Cost of sold houses	-	450,603
General administration expenses	1,469,093	1,006,064
	2,642,618	**2,608,766**
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions	1,139	1,131
Contributions to the defined contribution retirement scheme	62,942	57,789

10. PROFIT BEFORE TAXATION

The profit before taxation is arrived at after charging/(crediting):		
Directors' remuneration:		
Group:		
- Fees	19,426	17,138
- Expenses	2,150	2,492
- As executives	119,172	112,660
Company:		
- Fees	1,378	9,907
- As executives	69,960	60,032
Auditor's remuneration	12,585	11,742
Amortisation of prepaid operating lease rentals	645	269
Amortisation of intangible assets	172,582	10,799
Depreciation	153,449	93,655
Gain on sale of property and equipment	(3,962)	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

11. TAXATION

(a) Income tax expense

	2016	2015
	KES '000	KES '000
Current tax at 30% - Current year	632,796	680,642
- Prior year	-	-
	632,796	680,642
Deferred tax (Note 25(a) - Current year	(172,972)	(124,093)
	459,824	**556,549**

The tax on the Group's profit before tax differs from the theoretical amount using the basic tax rate as follows:

	2016	2015
	KES '000	KES '000
Accounting profit before taxation	**1,364,670**	**1,752,518**
Tax at the applicable corporation tax rate of 30%	409,401	526,055
Tax effect of non-deductible costs	55,755	55,397
Tax effect of share of profit in joint ventures	(5,332)	(24,903)
	459,824	**556,549**

(b) Taxation recoverable/(payable)

	Group		Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	KES '000	KES '000	KES '000	KES '000
At 1 January	(96,647)	14,260	(63,354)	4,315
Paid during the year/period	816,350	569,735	64,484	240,498
Charge for the year/period	(632,796)	(680,642)	-	(308,167)
At 31 December	**86,907**	**(96,647)**	**1,130**	**(63,354)**
The following amounts are shown in the balance sheet:				
Taxation recoverable	**86,911**	**13,421**	**1,130**	-
Taxation payable	**(4)**	**(110,068)**	-	**(63,354)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

12. EARNINGS PER SHARES

Basic

Earnings per share is calculated based on the profit attributable to shareholders divided by the number of ordinary shares in issue in each year as follows:

	2016	2015
	KES '000	KES '000
Net profit for the year attributable to shareholders	**904,844**	**1,196,969**
Number of ordinary shares in issue (000's)	**349,382**	**348,897**
Weighted average number of ordinary shares	**349,382**	**319,487**
Basic earnings per share	**2.59**	**3.43**

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. A final dividend in respect of the year ended 31 December, 2016 of KES. 0.50 per share (2015 - KES. 0.65) amounting to a total of KES. 174,690,834 (2015 - KES 226,782,834) has been proposed. During the year an interim dividend of KES Nil per share (2015 - KES 0.65), amounting to a total of KES Nil was paid (2015: KES 226,360,000). The total dividend for the year is therefore KES. 0.50 per share (2015 - KES. 1.30), amounting to a total of KES. 174,690,834 (2015 - KES. 453,143,834). Issued and fully paid ordinary shares were 349,381,667 as at 31 December, 2016 (2015 – KES. 348,896,667).

14. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values including accrued interest:

(a) Group

	Held-to-maturity	Other amortised cost	Fair value
31 December 2016:	KES '000	KES '000	KES '000
Financial Assets			
Cash and balances with banks	-	5,029,859	5,029,859
Placements with banks	-	1,616	1,616
Investment in government securities	1,180,000	2,905,550	4,085,550
Loans and advances	-	54,469,605	54,469,605
	1,180,000	**62,406,630**	**63,586,630**
Financial liabilities			
Customer deposits	-	38,707,026	38,707,026
Corporate bond	-	10,217,910	10,217,910
Borrowings – borrowed funds	-	946,929	946,929
Borrowings – banks/financial institutions	-	8,571,776	8,571,776
	-	**58,443,641**	**58,443,641**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

	Held-to-maturity KES '000	Other amortised cost KES '000	Fair value KES '000
(a) Group (Continued)			
31 December 2015:			
Financial Assets			
Cash and balances with banks	-	5,387,083	5,387,083
Placements with banks	-	4,580,142	4,580,142
Investment in government securities	1,574,403	576,578	2,150,981
Loan and advances	-	53,021,022	53,021,022
	1,574,403	**63,564,825**	**65,139,228**
Financial Liabilities			
Customer deposits	-	41,665,085	41,665,085
Corporate bond	-	10,212,442	10,212,442
Borrowings – borrowed funds	-	1,074,422	1,074,422
Borrowings – banks/financial institutions	-	7,253,511	7,253,511
	-	**60,205,460**	**60,205,460**

The fair value of treasury bonds is based on the indicative price of the specific issues as at the reporting date. The indicative prices are derived from trading at the Nairobi Securities Exchange. For treasury bills, placements with other banks, cash and cash equivalents and deposits the amortised cost is deemed a reasonable approximation of fair value because of their short term nature. The fair value of loans and advances has not been disclosed as this cannot be determined reliably.

(b) Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and other securities. Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments.	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation hierarchy (Continued)

The table below shows the classification of financial instruments held at fair value by the level in the fair value hierarchy as at 31 December 2016:

Group	Level 1	Level 2	Level 3	Total
31 December 2016:	KES '000	KES '000	KES '000	KES '000
Financial Assets				
Investment in government securities	-	4,085,550	-	4,085,550
Mortgage and advances	-	-	54,469,605	54,469,605
	-	**4,085,550**	**54,469,605**	**58,555,155**
Financial Liabilities				
Customer deposits	-	-	38,707,026	38,707,026
Corporate bond	-	10,217,910	-	10,217,910
Borrowed funds	-	-	946,929	946,929
Loans from banks	-	-	8,571,776	8,571,776
	-	**10,217,910**	**48,225,731**	**58,443,641**
31 December 2015:				
Financial Assets				
Investment in government securities	-	2,150,981	-	2,150,981
Mortgage and advances	-	-	53,021,022	53,021,022
	-	**2,150,981**	**53,021,022**	**55,172,003**
Financial Liabilities				
Customer deposits	-	-	41,665,085	41,665,085
Corporate bond	-	10,212,442	-	10,212,442
Borrowed funds	-	-	1,074,422	1,074,422
Loans from banks	-	-	7,253,511	7,253,511
	-	**10,212,442**	**49,993,018**	**60,205,460**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

15. CASH AND BALANCES WITH BANKS

	2016		2015	
	Group	Company	Group	Company
	KES '000	KES '000	KES '000	KES '000
Cash at hand	477,117	-	322,997	30,973
Balances with commercial banks	1,122,791	13,423	937,527	-
Balances with Central Bank of Kenya:				
- Unrestricted	1,264,907	-	1,927,464	-
- Restricted (Cash Reserve Ratio)	2,165,044	-	2,199,095	-
	5,029,859	**13,423**	**5,387,083**	**30,973**

The Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2016, the Cash Reserve Ratio was 5.25% (2015 – 5.25%) of all deposits. These funds are now available for use by the company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%.

16. PLACEMENTS WITH OTHER BANKS

	2016		2015	
	Group	Company	Group	Company
	KES '000	KES '000	KES '000	KES '000
Placements with commercial banks	**1,616**	**-**	**4,580,142**	**5,000**

17. INVESTMENT IN GOVERNMENT SECURITIES

	Group 2016 KES '000	Group 2015 KES '000
Held to maturity		
Treasury bonds due after 180 days	4,376,174	1,571,403
Available-for-sale		
Treasury bonds classified as available-for-sale	509,493	579,578
CBK Reverse Repo	(800,117)	-
	4,085,550	**2,150,981**

The weighted average effective interest rate on government securities as at 31 December 2016 was 11.65% (2015 – 12.76%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS

Group

(a) Loans and advances at amortised cost	2016 KES '000	2015 KES '000
Loans and advances	57,014,746	54,915,778
Less: Provision for impairment losses (Note 18(b))	(2,545,141)	(1,894,756)
	54,469,605	**53,021,022**
Maturing:		
Within five years	18,272,571	16,467,390
Over five years to ten years	15,266,072	10,281,821
Over ten years to fifteen years	17,077,380	18,760,067
Over fifteen years	6,398,723	9,406,500
	57,014,746	**54,915,778**

(b) Reserve for impairment losses	Impairment losses KES '000	Portfolio impairment KES '000	Total KES '000
At 1 January 2015	1,389,826	77,464	1,467,290
Impairment made in the year	954,884	39,039	993,923
Provisions no longer required	(490,152)	-	(490,152)
Written off against balance	(76,305)	-	(76,305)
At 31 December 2015	**1,778,253**	**116,503**	**1,894,756**
Impairment made in the year	1,030,441	6,989	1,037,430
Provisions no longer required	(338,264)	-	(338,264)
Written off against balance	(48,781)	-	(48,781)
At 31 December 2016	**2,421,649**	**123,492**	**2,545,141**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses	Impairment losses KES '000	Portfolio impairment KES '000	Total KES '000
2016			
Impairment made in the year	1,030,441	6,989	1,037,430
Provisions no longer required	(338,264)	-	(338,264)
At 31 December 2016	**692,177**	**6,989**	**699,166**
2015			
Impairment made in the year	954,884	39,039	993,923
Provisions no longer required	(490,152)	-	(490,152)
At 31 December 2015	**464,732**	**39,039**	**503,771**

(d) Loans and advances

Included in the loans balance is interest yet to be received in cash from mortgage and advances classified as impaired loans and advances as shown below:

	2016 KES '000	2015 KES '000
Interest on impaired loans and advances which have not yet been received in cash	**736,776**	**624,572**

The weighted average effective interest rate on loans advances to customers as at 31 December, 2016 was 13.69% (2015 – 13.9%).

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

(a) Subsidiaries	Shareholding	Company 2016 KES '000	Company 2015 KES '000
HFC Limited	100%	8,513,662	8,513,662
HF Development and Investment Limited	100%	1,440,000	1,440,000
First Permanent (East Africa) Limited	100%	5,020	5,020
HF Insurance Agency Limited	100%	100	100
		9,958,782	**9,958,782**
(b) Joint ventures			
Precious Heights Limited	50%	111,384	78,236
Kahawa Downs Limited	50%	144,177	94,313
Richland Development Limited	50%	168,651	114,585
Theta Dam Estate Limited	50%	803,567	683,540
Claycity Limited	50%	33,090	26,527
Police Housing		1,468	-
		1,262,337	**997,201**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (Continued)

(b) Joint ventures (continued)	Shareholding	Company 2016 KES '000	Company 2015 KES '000
Group share of profit/(loss) in joint venture			
Precious Heights Limited	50%	(5,095)	33,148
Kahawa Downs Limited	50%	24,031	49,864
Richland Development Limited	50%	(899)	-
Claycity Limited	50%	(264)	-
Theta Dam Estate Limited	50%	-	-
Police Housing		-	-
		17,773	83,012
Net investment in joint venture		**1,280,110**	**1,080,213**

to the following joint ventures for development of housing units in Kahawa Wendani, Riruta, Ruiru, Thika Road in Nairobi and Kamiti Road in Kiambu:

- Kahawa Downs Limited;
- Precious Heights Limited;
- Richland Development Limited;
- Theta Dam Estate; and
- Claycity Limited.

The entities are jointly controlled with each party holding 50% of the shareholding. The Group contributed capital which is equivalent to value of the land where the housing units will be developed. They are structured as a separate vehicle and the Group has a residual interest in their net assets. Accordingly, the Group has classified its interest in these entities as a joint venture, which is equity accounted.

The following are summarised financial information for Kahawa Downs Limited, Precious Heights Limited, Richland Development Limited and Claycity Limited based on their financial statements prepared in accordance with IFRS. There were no revenue and expenses in the profit or loss for Theta Dam Estate Limited during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (CONTINUED)

	Group 2016				Group & Company 2015			
	Kahawa Downs Limited KES'000	Precious Heights Limited KES '000	Richland Development Limited KES '000	Claycity Limited KES'000	Kahawa Downs Limited KES'000	Precious Heights Limited KES '000	Richland Development Limited KES'000	Claycity Limited KES'000
Revenue	500,121	58,209	102	78	693,584	864,327	-	-
Operating costs	(431,511)	(68,399)	(1,900)	(607)	(559,504)	(776,799)	-	-
Income tax expense	(20,548)	-	-	-	(34,352)	(21,232)	-	-
Profit/(loss) and other Comprehensive income	**48,062**	**(10,190)**	**(1,798)**	**(529)**	**99,728**	**66,296**	**-**	**-**
Group share of net profit/ (loss) (50%)	**24,031**	**(5,095)**	**(899)**	**(264)**	**49,864**	**33,148**	**-**	**-**
Current assets	831,966	372,787	455,637	71,620	1,004,082	450,699	337,302	66,180
Current liabilities	(495,550)	(160,209)	(120,133)	(5,969)	(715,728)	(227,931)	-	-
Net assets	**336,416**	**212,578**	**335,504**	**65,651**	**288,354**	**222,768**	**337,302**	**66,180**
Groups share of net assets (50%)	**168,208**	**106,289**	**167,752**	**32,826**	**144,177**	**111,384**	**168,651**	**33,090**
Group's interest in net assets of the investees at the beginning of the year	144,177	111,384	168,651	33,090	94,313	78,236	-	-
Share of total comprehensive income	24,031	(5,095)	(899)	(264)	49,864	33,148	-	-
Carrying amount of interest in investee at end of the year	**168,208**	**106,289**	**167,752**	**32,826**	**144,177**	**111,384**	**168,651**	**33,090**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

20. OTHER ASSETS

	2016		2015	
	Group	Company	Group	Company
	KES '000	KES '000	KES '000	KES '000
Staff debtors	138,715	-	135,636	-
Prepayments	321,658	-	279,024	-
Deposits and rent receivable	51,057	-	47,294	-
House sales debtors	749,163	-	639,993	-
Other receivables	243,893	25,922	222,597	30,900
	1,504,486	**25,922**	**1,324,544**	**30,900**

Included in staff debtors are staff car loans of KES. 15,973,214 (2015 – KES. 21,633,242) and staff personal loans of KES. 123,041,577 (2015 – KES .114,002,776).

21. HOUSING DEVELOPMENT PROJECTS

	2016	2015
	KES '000	KES '000
Group:		
Housing projects		
Housing Projects	**2,000,304**	**1,319,204**

There were no commitments in respect of these projects authorized in 2016 (2015 - Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT

(a) Group 2016:	Freehold land KES '000	Buildings KES '000	Furniture, fixtures, equipment & motor vehicles KES '000	Work in progress KES '000	Total KES '000
Cost or valuation:					
At 1 January, 2016	52,000	655,184	648,602	325,014	1,680,800
Additions	-	-	96,734	172,872	269,606
Disposals	-	-	(10,972)	-	(10,972)
Transfers	-	-	483,234	(483,234)	-
Revaluation	-	-	-	-	-
At 31 December, 2016	52,000	655,184	1,217,598	14,652	1,939,434
Comprising:					
At cost	-	20,651	1,217,598	14,652	1,252,901
At valuation	52,000	634,533	-	-	686,533
	52,000	655,184	1,217,598	14,652	1,939,434
Depreciation:					
At 1 January, 2016	-	45,291	293,579	-	338,870
Charge for the year	-	9,677	143,772	-	153,449
Disposals	-	-	(10,972)	-	(10,972)
At 31 December, 2016	-	54,968	426,379	-	481,347
Net book value:					
At 31 December 2016	**52,000**	**600,216**	**791,219**	**14,652**	**1,458,087**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(a) Group (Continued)

2015:	Freehold land KES '000	Buildings KES '000	Furniture, fixtures, equipment & motor vehicles KES' 000	work in progress KES '000	Total KES '000
Cost or valuation:					
At 1 January ,2015	52,000	654,965	558,922	261,953	1,527,840
Additions	-	-	90,004	63,061	153,065
Revaluation	-	219	(324)	-	(105)
At 31 December 2015	52,000	655,184	648,602	325,014	1,680,800
Comprising:					
At cost	-	20,651	648,602	325,014	994,267
At valuation	52,000	634,533	-	-	686,533
	52,000	655,184	648,602	325,014	1,680,800
Depreciation:					
At 1 January, 2015	-	35,212	210,376	-	245,588
Charge for the year	-	10,079	83,203	-	93,282
At 31 December, 2015	-	45,291	293,579	-	338,870
Net book value:					
At 31 December 2015	**52,000**	**609,893**	**355,023**	**325,014**	**1,341,930**

The Group's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June, 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December, 2014. The resulting surplus was credited to revaluation reserve.

The net book value (NBV) of properties at their historical cost is as follows:

	2016 KES '000	2015 KES '000
Freehold land	206	206
Buildings	4,037	10,224

Included in equipment are assets with a gross value of KES 197,131,304 (2015 – KES 36,364,404) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KES .51,926,847 (2015 – KES 7,272,881). Revaluation of the group's assets is done after every 3 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2016:	Freehold land KES '000	Buildings KES '000	Furniture, fixtures equipment & motor vehicles KES '000	Work in progress KES '000	Total KES '000
Cost or valuation:					
At 1 January, 2016	-	-	210	-	210
Additions	-	-	16,460	-	16,460
Revaluation	-	-	-	-	-
Disposals	-	-	(16,392)	-	(16,392)
At 31 December, 2016	**-**	**-**	**278**	**-**	**278**
Depreciation:					
At 1 January, 2016	-	-	7	-	7
Charge for the year	-	-	1,929	-	1,929
Disposal	-	-	(1,904)	-	(1,904)
At 31 December, 2016	-	-	32	-	32
Net book value:					
At 31 December 2016	**-**	**-**	**246**	**-**	**246**
2015:					
Cost or valuation:					
At 1 January, 2015	52,000	654,966	553,319	261,953	1,522,238
Additions	-	-	45,331	54,749	100,080
Revaluation		324	(324)	-	-
Disposals	-	-	-	-	-
Transfers to HFC Ltd.	(52,000)	(655,290)	(598,116)	(316,702)	(1,622,108)
At 31 December, 2015	-	-	210	-	210
Depreciation:					
At 1 January, 2015	-	35,289	204,868	-	240,157
Charge for the year	-	5,878	47,674	-	53,552
Transfers to HFC Ltd	-	(41,167)	(252,535)	-	(293,702)
At 31 December, 2015	-	-	7	-	7
Net book value:					
At 31 December 2015	**-**	**-**	**203**	**-**	**203**

The Company's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December, 2014. The resulting surplus was credited to revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

23. PREPAID OPERATING LEASE RENTALS

	2016 Group KES '000	2015 Group KES '000	2015 Company KES '000
Cost:			
At 1 January and 31 December	54,612	54,612	45,706
Transfers to HFC Ltd	-	-	(45,706)
At 31 December, 2016	54,612	54,612	-
Amortisation:			
At 1 January	9,216	8,574	5,846
Charge for the year	645	642	269
Transfers to HFC Ltd	-	-	(6,115)
As at 31 December	9,861	9,216	-
At 31 December	**44,751**	**45,396**	**-**

As at 31 December ,2016 the un-expired lease period ranges from 68 to 87 years. Leasehold land is recognised at cost. The company leasehold land was valued professionally on 31 December, 2014 at KES 350,000,000.

24. INTANGIBLE ASSETS

	2016 Group KES '000	2015 Group KES '000	2015 Company KES '000
Cost:			
At January	982,349	673,517	673,445
Additions during the year	566,062	308,832	224,711
Transfers to HFC Ltd	-	-	(898,156)
As at 31 December	1,548,411	982,349	-
Amortisation:			
At January	163,202	152,403	152,331
Amortisation during the year	172,583	10,799	6,774
Transfer to HFC Ltd	-	-	(159,105)
As at 31 December	335,785	163,202	-
Net book value:			
As at 31 December	**1,212,626**	**819,147**	-

Included in the Intangible assets is the HFC Limited Core Banking Software amounting to KES 1,294,905,015 that was rolled out on 1 January, 2016 whose estimated useful life is 8 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

25. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets and liabilities are attributable to the following:

(a) Group

2016:	01.01.2016 KES '000	Prior year under provision KES '000	Recognised in income KES '000	Recognized in other comprehensive income KES '000	31.12.2016 KES '000
Arising from:					
Property and equipment	(825)	-	(20,554)	-	(21,379)
Revaluation surplus	(36,924)	-	-	-	(36,924)
Fair value reserves	25,151	-	-	6,955	32,106
Other general provisions	17,926	-	(7,966)	-	9,960
Unrealised exchange losses	2,596	-	(2,659)	-	(63)
General provision on mortgages and advances	568,427	-	204,108	-	772,535
Net deferred tax	**576,351**	**-**	**172,929**	**6,955**	**756,235**
Deferred tax liability					
Arising from;					
Property and equipment	**(43)**	**-**	**43**	**-**	**-**

2015:	01.01.2015 KES '000	Prior year under provision KES '000	Recognised in income KES '000	Recognized in other comprehensive income KES '000	31.12.2015 KES '000
Property and equipment	(1,967)	-	1,142	-	(825)
Revaluation surplus	(36,924)	-	-	-	(36,924)
Fair value reserves	19,391	-	-	5,760	25,151
Other general provisions	30,970	-	(13,044)	-	17,926
losses	(5,202)	-	7,798	-	2,596
mortgages and advances	440,187	-	128,240	-	568,427
Net deferred tax	**446,455**	**-**	**124,136**	**5,760**	**576,351**
Property and equipment	**-**	**-**	**(43)**	**-**	**(43)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

25. DEFERRED TAX ASSETS/(LIABILITIES) (Continued)

(b) Company

2016:	At 01.01.2016 KES '000	Prior year under provision KES '000	Recognized in income KES '000	Recognized in other comprehensive income KES '000	At 31.12.2016 KES '000
Arising from:					
Property and equipment	-	(1)	(2)	-	(3)
Trading tax losses	-	-	10	-	10
	-	**(1)**	**8**	**-**	**7**

The deferred taxation asset has not been recognised in these financial statements due to uncertainty of the timing when sufficient future taxable profits to realise the asset will be realised. This position will be reviewed at subsequent reporting dates.

2015:	At 01.01.2015 KES '000	Prior year under provision KES '000	Transfer to HFC Ltd KES '000	Recognized in other comprenhensive income KES '000	At 31.12.2015 KES '000
Arising from:					
Property and equipment	(2,018)	-	2,018	-	-
Revaluation surplus	(36,924)	-	36,924	-	-
Fair value reserves	19,391	-	(19,391)	-	-
Other general provisions	29,997	-	(29,997)	-	-
Unrealised exchange losses	(5,202)	-	5,202	-	-
General provision on Mortgages and advances	440,187	-	(440,187)	-	-
	445,431	**-**	**(445,431)**	**-**	**-**

26. EMPLOYEE BENEFITS

Employee Share Ownership Plan (ESOP)

Movement in the number of share options held for the employees under the Employee Share Ownership Plan is as follows:

	2016 Number of shares	2015 Number of shares
Outstanding at start of year	530,000	455,000
Granted during the year	930,000	925,000
Lapsed	(490,000)	(200,000)
Exercised	(485,000)	(650,000)
Outstanding at end of year	**485,000**	**530,000**
Exercise price per share – KES	**10.00**	**10.00**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

26. EMPLOYEE BENEFITS (Continued)

Options may be exercised at the price of KES 10. The trading price of HF Group Limited share as at 31 December 2016 on the Nairobi Securities Exchange was KES. 14.00 (2015 – KES 22.25). All 485,000 (2015 – 530,000) outstanding shares were exercisable as at 31 December 2016.

Background of Employee Share Ownership Plan

On 26 July 2006, the shareholders gave approval for an Employee Share Ownership Plan (ESOP) to be set up to facilitate the ownership of shares in HF Group Limited by employees of the company. Approval to issue additional shares, listing of shares and allotment to the Employee Share Ownership Plan (ESOP) was approved by Capital Market Authority on 20 December, 2010. The total number of shares approved under the ESOP amount to 5,750,000. The ESOP is for Group employees (excluding Non-Executive Board Directors) who have attained the age of 18 years, have completed the probationary period and have been confirmed as employees of the Group in accordance with their contract of employment. However, the right to exercise an option shall terminate immediately upon the option holder ceasing to be an eligible employee, unless the holder of an unexercised option dies before exercising a subsisting option, where the option may be exercised by his personal representatives within 12 months of the date of death. The eligible employees pay for the units by cash at a price determined by trustees either in full or by instalments until price is paid in full. The unit holder is not allowed to sell, transfer or otherwise dispose of Units registered in his name to another unit holder or to any third party whatsoever. The administrative offices of the ESOP – unit Trust are the Principal Offices of the Company.

27. CUSTOMERS' DEPOSITS

2016	2016 Group KES '000	2015 Group KES '000
Government and parastals:		
Payable within 90 days	2,868,406	6,311,924
Payable after 90 days and within one year	-	-
Payable after one year	1,148,963	948,011
Private sector and individuals:		
Payable within 90 days	29,729,555	26,731,498
Payable after 90 days and within one year	4,599,470	2,414,894
Payable after one year	360,632	5,258,758
	38,707,026	**41,665,085**

(a) Included in customers' deposits is KES. 26,915,605 (2015 – KES. 171,279,834) due to a subsidiary, HF Development and Investments Limited, KES. 7,602,372 (2015 – KES. 7,526,493) due to a subsidiary, First Permanent (East Africa) Limited, KES .8,542,247 (2015- KES. 6,844,292) due to a subsidiary, HF Insurance Agency Limited, and KES. 17,051,582 (2015 – Kshs.1,311,879) due to a subsidiary, HF Foundation.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2016 was 7.3% (2015 – 7.01%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

28. OTHER LIABILITIES

	2016		2015	
	Group	Company	Group	Company
	KES '000	KES '000	KES '000	KES '000
Interest payable on the Government of Kenya income notes	2,093	-	2,093	-
House sales deposits	129,117	-	66,286	
Withholding tax payable	65,715	-	59,147	-
Sundry creditors	739,714	-	120,592	-
Other liabilities	1,199,841	53,580	409,155	17,046
	2,136,480	**53,580**	**657,273**	**17,046**

29. LOANS AND BORROWINGS

(a) Borrowings from banks and financial institutions

	Group 2016	Group 2015
	KES '000	KES '000
European Investment Bank	1,873,904	2,184,925
Ghana International Bank (London)	640,625	1,279,375
Norfund	1,005,854	1,005,333
Shelter Afrique	1,055,718	1,025,328
International Finance Corporation	1,174,579	1,758,550
Symbiotic SA	1,793,413	-
East African Development Bank	1,027,683	-
	8,571,776	**7,253,511**

The loans from European Investment Bank, Ghana International Bank (London), Norfund and International Finance Corporation were transferred from HF Group Limited (formerly Hosuing Finance Company of Kenya Limited) with effect from 3 August, 2015. HF Group Limited received a USD 18.75 million loan from Ghana International Bank in London for a period of 3 years with effect from 31 December 2015 at the rate of 3 months USD LIBOR plus a margin of 5.50%. Both interest and principal of this facility are repayable on a quarterly basis. In 2015, HF Group Limited received three tranches from European Investment Bank of USD 7,088,000 at a rate of 5.037%, KES 356,283,794 at a rate 10.664% and KES. 447,052,320 at a rate of 10.712% while in 2012 the Company received two loan tranches from European Investment Bank of KES 668,085,425 at 10.783 % and KES 211,000,000 at 11.269%. All the tranches are for a period of 7 years for lending to Small and Medium Enterprises in the real estate sector. Interest and principal are payable semi-annually with a 2 year grace period for principal repayments. A USD 20 Million loan was received from International Finance Corporation on 1 July, 2013. The loan is for 7 years at a rate of 6 months USD Libor plus a margin of 4.30%. Interest is paid half yearly with a 3 year grace period on the principal loan repayment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

29. LOANS AND BORROWINGS (Continued)

(a) Borrowings from banks and financial institutions (Continued)

During the period, the Company received a loan of USD 10 million from Shelter Afrique for a period of 10 years with effect from 23 December, 2016 at the rate of 6 months USD Libor plus a margin of 6.35%. Interest is paid half yearly with a 2 year grace period on the principal loan repayment. During the period HFC received a loan of USD 17.4 million from Symbiotic SA for a period of 7 years at a rate of 6.54%. HFC also received USD 10 million from East African Development bank on the 13th of December, 2016 at a rate of 7.25% to be repaid in 7 years.

(b) Borrowed funds

	2016 KES '000	2015 KES '000
Group:		
Borrowings	**946,929**	**1,074,422**

In 2015, HF Development and Investment Limited (formerly Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of HF Group Ltd entered into a financing arrangement with Shelter Afrique for development of housing units at Komarock Estate. The facility is secured by the land where the development is taking place. The loan is at Shelter Afrique's base rate currently at 18%. Both interest and principal are payable on a quarterly basis.

In 2015, HF Development and Investment Limited (formerly Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of HF Group Limited took a loan from HFC Limited. The loan accrues interest at the rate of 14%. Interest expense for the year ended 31 December, 2016 amounted to KES 1,562,740 (2015: Nil).

(c) Reconciliation of the movement in Loans, Borrowings and Corporate Bond:

	Group 2016 KES '000	Group 2015 KES '000
At 1 January	18,540,375	17,143,112
Funds Received	2,821,096	2,025,000
Payments on Principal and Interest	(1,624,856)	(627,737)
Net Movement in Borrowings	1,196,240	1,397,263
At 31 December	**19,736,615**	**18,540,375**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

30. CORPORATE BOND

	Group 2016 KES '000	Group 2015 KES '000
Corporate bond	10,000,000	10,000,000
Interest payable on corporate bond	217,910	212,442
	10,217,910	**10,212,442**

In 2012, the company raised KES.2,969,100,000 which was the balance on the 7year KES. 10 billion Medium Term Note (MTN) programme. The total amount is at a fixed rate of 13%.

In 2010, the company raised KES. 7,030,900,000 under the 7year MTN whose programme size is KES 10,000,000,000. The total notes on a fixed rate of 8.5% per annum amount to KES 5,865,400,000 while the total notes on floating rate are KES 1,165,500,000. The floating rate notes are on a margin of 3% plus 182 day Treasury bill rate of the last auction immediately preceding the interest payment date subject to a minimum of 5% per annum and maximum of 9.5% per annum. Maturity of KES 7,030,900,000 will be on 2 October, 2017.

31. CAPITAL AND RESERVES

Group and Company:

(a) Ordinary share capital

	KES '000 2016	KES '000 2015
Authorised:		
At 1 January		
500,000,000 (2015 – 500,000,000) ordinary shares of KES 5.00 each	2,500,000	2,500,000
2016 – Nil (2015 – Nil) additional shares of KES 5.00 each authorised during the year	-	-
At 31 December 500,000,000 (2015 – 500,000,000) ordinary Shares of KES 5.00 each	**2,500,000**	**2,500,000**
Issued and fully paid:		
At 1 January:		
348,896,667 (2015 – 231,580,000) ordinary shares of KES. 5.00 each	1,744,483	1,157,900
485,000 (2015 – 117,316,667) ordinary shares of KES. 5.00 each issued in the year	2,425	586,583
At 31 December 349,381,667 (2015 – 348,896,667) ordinary shares of KES 5.00 each	**1,746,908**	**1,744,483**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

31. CAPITAL AND RESERVES (Continued)

(a) Ordinary share capital (Continued)

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the company. Issued and fully paid ordinary shares were 349,381,667 as at 31 December 2016 (2015 – 348,896,667). During the year, 485,000 (2015 - 650,000) shares were issued under employee share ownership program at KES 10 per share leading to a share premium of KES 5 (2015 – KES 5) per share.

(b) Share premium

This reserve arises when the shares of the company are issued at a price higher than the nominal (Par) value.

(c) Revaluation reserve

Revaluation reserve arise from the periodic revaluation of Group's assets. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(d) Statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

(e) Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments and available-for-sale Treasury bonds, excluding impairment losses, until the investment is derecognised.

	Group 2016 KES '000	Group & Company 2015 KES '000
As at 1 January	(58,678)	(45,245)
Change in fair value during the year		
Disposal of equity investment	-	-
Treasury bonds classified as available for sale	(24,167)	(19,190)
	(24,167)	(19,190)
Deferred tax effect	6,955	5,757
As at 31 December	**(75,890)**	**(58,678)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

32. SHAREHOLDERS' INCOME NOTES AND LOANS

	2016 KES '000	2015 KES '000
Government of Kenya – Income Notes	**50,750**	**50,750**

The Government of Kenya – Income Notes carry no redemption date and are charged interest at a fixed rate of 8.25% per annum (2015 – 8.25%).

33. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flows from operating activities

	2016 KES '000	2015 KES '000
Profit before taxation	1,365,653	1,753,518
Adjustments for:		
Depreciation	153,449	93,282
Amortisation of intangible assets	172,583	10,799
Amortisation of prepaid operating lease rentals	645	642
Profit on sale of property and equipment	(3,962)	-
Increase of balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	31,452	(1,139,787)
(Decrease)/increase in customer deposits	(2,958,059)	5,559,156
Increase in loans and advances to customers	(1,448,583)	(7,777,483)
Investment in Government securities	(1,957,753)	(1,905,842)
Increase in housing project	(681,100)	(1,004,857)
Profit on investment in joint ventures	(17,773)	(83,012)
Increase in other assets	(179,942)	(293,222)
Increase/(decrease) in other liabilities	1,479,205	(450,177)
Net cash flows from operating activities before tax	**(4,044,185)**	**(5,236,983)**
Income tax paid	(816,350)	(569,735)
Net cash flows from operating activities	**(4,860,535)**	**(5,806,718)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

33. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analyses of cash and cash equivalents(including restricted balances)

	2016 KES '000	2015 KES '000	Change in the year KES '000
Cash in hand and bank	2,863,199	3,187,988	(324,789)
Balances due from banking institutions	1,616	4,580,142	(4,578,526)
	2,864,815	**7,768,130**	**(4,903,315)**

34. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2016, the company had issued guarantees in the ordinary course of business to third parties amounting to KES 1,052.83 million (2015 – KES 256.26 million).

(b) Other contingent liabilities

In the ordinary course of business, the company and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the Directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements. The significant claims are described below:

ICEA LION Group has sued HFC Limited and others for loss of KES 120m which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stock Brokers. The Company's advocates have filed a defence against ICEA.

Sharok Kher Mohamed sued HFC Limited for selling the property by public auction in 2000. The plaintiff was awarded judgment for KES 20 million plus interest. HFC Limited have appealed against the judgment and the matter is pending in the Court of Appeal.

In 2010, Kenya Revenue Authority (KRA) carried out a tax audit of Housing Finance Company of Kenya (Now HF Group Limited) for the years 2006 – 2009 and raised a claim of KES. 61,369,382 (including penalties and interest). HF Group Limited appealed against KRA's assessments for KES. 6,743,448 at the Local Committee and the appeal succeeded. However, KRA appealed against the local Committee decision at the High Court. The appeal was however dismissed by the High Court in November 2012. Out of the remaining balance of KES. 51,142,134, KRA conceded KES 28,338,768, HF Group Limited paid KES 6,205,446 and applied for waiver of penalties and interest amounting to 16,597,920 to the Cabinet Secretary for the National Treasury.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

35. OPERATING LEASE ARRANGEMENTS

Group:

The bank as a lessor

Rental income earned during the year was KES. 50,066,142 (2015 – KES. 54,409,129). At the reporting date, the Group had contracted with tenants for the following future lease receivables:

	2016	2015
	KES '000	KES '000
Within one year	29,463	37,102
In second to fifth year inclusive	129,261	78,247
After five years	13,891	3,109
	172,615	**118,458**

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

The group as a lessee

At the reporting date, the Group had outstanding commitments under operating leases which fall due as follows:

	2016	2015
	KES '000	KES '000
Within one year	84,498	78,021
In second to fifth year inclusive	326,314	262,191
After five years	4,045	17,953
	414,857	**358,165**

Operating lease payments represent rentals payable by HFC Limited for its branch premises.Leases are negotiated for an average term of 6 years.

36. LOAN COMMITMENTS

Group

Loan commitments amounting to KES. 6,482,459 (2015 – KES 7,933,776,319) are analysed below:

	2016	2015
	KES '000	KES '000
Commitment in principle but not authorised for payment	3,023,497	3,218,000
Authorised but not paid	3,410,631	4,715,776
	6,434,128	**7,933,776**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

37. CAPITAL COMMITMENTS

Group:		
Authorised but not contracted	-	**342,702**

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2016, there were no assets pledged by the Group to secure liabilities nor secured Group liabilities other than as disclosed on Note 31.

39. RELATED PARTY TRANSACTIONS

Group:

The Group has entered into transactions with its employees as follows:

(a) Loans

	2016	2015
	KES '000	KES '000
At 1 January	1,002,120	834,219
Loans advanced during the year	374,903	389,308
Loans repayments received	(281,498)	(221,407)
At 31 December	**1,095,525**	**1,002,120**
Comprising:		
Loans and advances	956,510	865,782
Personal loans	123,042	114,003
Staff car loans	15,973	21,633
Other	-	702
At 31 December	**1,095,525**	**1,002,120**

Included in related party are staff car loans of KES. 15,973,214 (2015 – KES. 21,633,242) and staff personal loans of KES. 123,041,557 (2015 – KES 114,002,776). The related interest income for staff car loans and staff personal loans in 2016 was KES 1,495,736 (2015 – KES. 638,511) and KES. 7,592,051 (2015 – KES .3,383,119) respectively.

In the normal course of business, transactions have been entered with certain related parties at commercial terms.

(b) Remuneration to Directors is disclosed under Note 10.

(c) Compensation to senior management including executive directors for the year ended 31 December 2016 amounted to KES 282,241,560 (2015 – KES. 185,411,701).

(d) Transactions with Britam Insurance

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

39. RELATED PARTY TRANSACTIONS (Continued)

	2016	2015
(d) Transactions with Britam Insurance Company (Kenya) Limited	KES '000	KES '000
Bank balances held with HFC Limited/HF Group Limited	**118,000**	**646,111**

(e) Transactions with Britam Holdings Limited

Bank balances held with HFC Limited/HF Group Limited	**400,000**	**901,425**

Richland Pointe

Richland Pointe is a joint venture project consisting of 248 modern 3 and 2 bedroom apartments located along Kamiti Road. The project whose ground breaking was held in 2015, provides a perfect blend of city life convenience with a country feel.

PROXY FORM

To The Registrar
HF Group Limited
Rehani House
Kenyatta Avenue
P.O. Box 30088
00100 Nairobi GPO

I/We ____

of ____

Being a member/members of HF GROUP LIMITED hereby appoint ______________________________

____

of ____

or failing him, the duly appointed Chairman of the meeting to be my/our proxy to vote for me/us on my/our behalf at the 51st Annual General Meeting of the Company to be held on the 21st day of April 2017, or at any adjournment thereof.

Number of shares held____

Account number ______________________________(if known)

Signed this ______________ day of____________2017.

Signed

____

Note:

1 In case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.

2 The proxy form should be completed and returned to the Registrar by 11.00 am on 19th April 2017, failing which it will be invalid.

FOMU YA UWAKILISHI

Kwa: The Registrar
HF Group
Rehani House
Kenyatta Avenue
S.L.P 30088
00100 Nairobi GPO

Mimi/ Sisi: ____

Kutoka: ____

Kama mwanachama wa HF GROUP LIMITED namteua: ___________________________________

____

Kutoka ____

Au akikosa, Mwenyekiti wa Mkutano kuwa wakala wangu/ wetu kupiga kura kwa niaba yangu/yetu wakati wa kikako cha mkutano wa 51 wa pamoja wa mwaka utakaofanyika Aprili 21, 2017 au kuahirishwa.

Idadi ya hisa zinazomilikiwa ____

Nambari ya akaunti: ______________________________ (endapo inajulikana)

Imetiwa sahihi ______________________ tarehe ____________________2017

Sahihi

____

Muhimu:

1 Endapo mwanachama atakuwa shirika, fomu ya uwakilishi iwe imepigwa mhuri rasmi au kutiwa sahihi na afisa au mwanasheria aliyeidhinishwa kikamilifu

2 Fomu ya uwakilishi ijazwe na kurejeshwa kwa msajili kabla ya saa tano asubuhi Aprili 19, 2017 na endapo itachelewa, haitakuwa na uhuhimu wowote.

HF Foundation

HF Foundation continues in its quest to create an “Army of 1 million artisans”. In 2016, the Foundation facilitated internships, trainings and mentorship sessions to empower Technical and Vocational Education Training (TVET) students. These included internship opportunities at HFDI sites such as Komarock Heights and Richland.

HF GROUP

Dreams Made Possible

HFC
Dreams Made Possible

HFDI
Dreams Made Possible

HF FOUNDATION
Dreams Made Possible

HF INSURANCE AGENCY
Dreams Made Possible

HF Group
Tel: 020 3317474/3262000
Toll free no. 0800 721400
Email: housing@hfgroup.co.ke
Website: www.hfgroup.co.ke

HF Group is regulated as a Non-Operating Holding Company by the Central Bank of Kenya