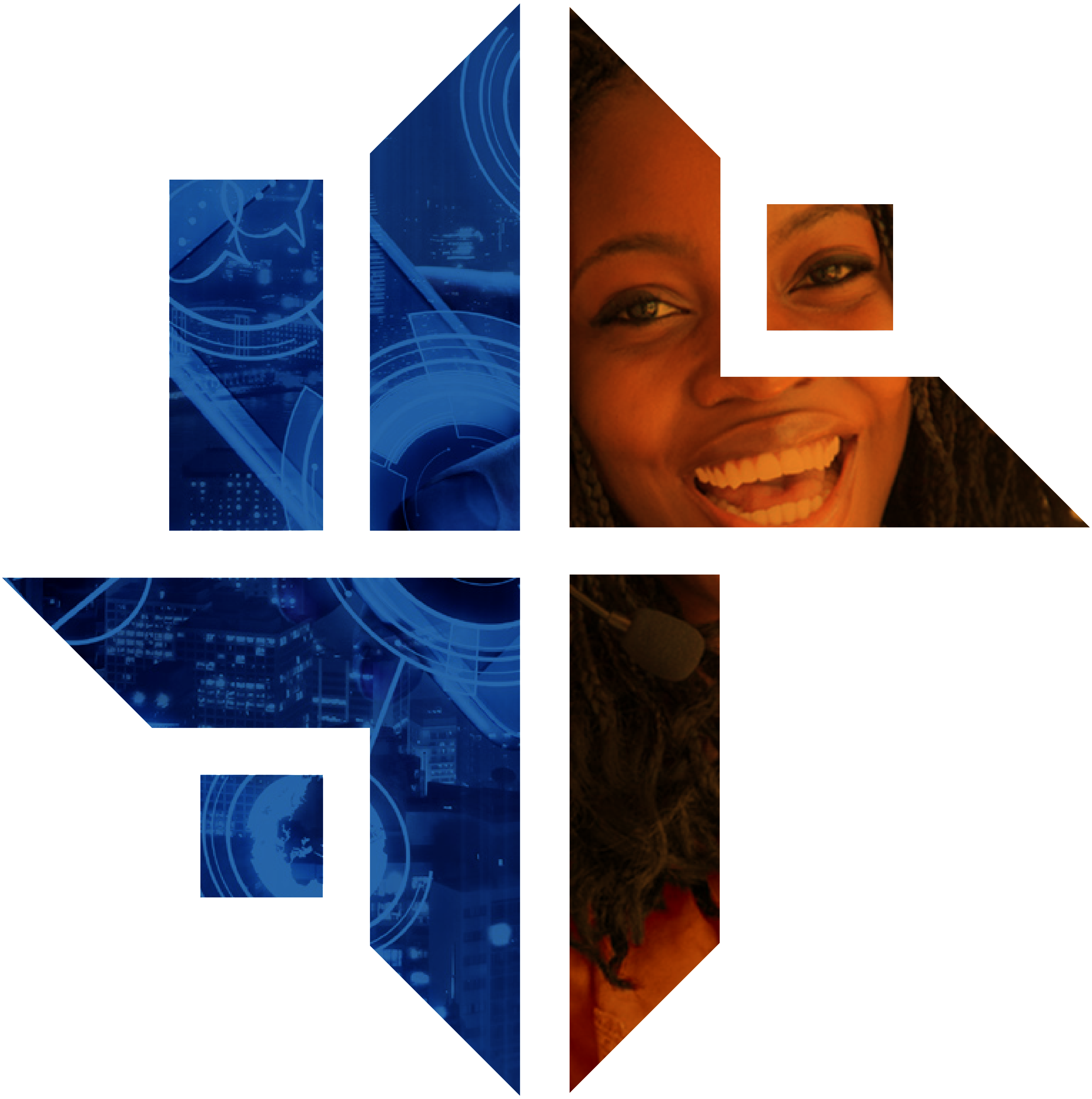
HF GROUP
Dreams Made Possible

ANNUAL REPORT | 2017



Mission & 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.

HF GROUP
Dreams Made Possible

CONTENTS

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Steve O. Mainda	Chairman
Frank Ireri	Group Managing Director
Dr. Benson Wairegi	
Dr. Peter K. Munga	
Adan D. Mohamed	
Constance Gakonyo	
Dr. Kaushik Manek	
Felister Kembi	
Gladys Karuri	

COMPANY SECRETARY

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR

Comprite Kenya Limited
2nd Floor, Cresent Business Centre
Parklands Road
P.O. Box 63428-00619
Nairobi

BANKERS

HFC Limited
Rehani House,
Kenyatta Avenue/Koinange Street
P.O. Box 30088-00100
Nairobi

AUDITORS

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

PRINCIPAL LEGAL ADVISORS

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680-00200
Nairobi

SUBSIDIARIES

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

OUR GROUP HISTORY

INCORPORATION 1965–1989

THE COMPANY WAS INCORPORATED IN 1965

- Founding investors being CDC (60%) and GoK (40%)
- GoK and CDC become equal shareholders in 1970
- From "In Pursuit of Shelter" to "The Rock of Kenya"
- 4 Branches

PUBLIC LISTING 1992–2000

LISTED ON THE NSE IN 1992

- CDC and GoK shareholding of 30.4% each and Kenyan investors 39.2%
- Upgrade banking system to Bank Plus
- In 1989, GoK reduced the shareholding to 7.3% and Kenyan investors to 62.3%
- First website launched

POSITIONING 2000–2010

FROM HFCK TO HOUSING FINANCE

- Rebranding to Housing Finance in 2002
- From the "Rock of Kenya" to "Turning Dreams Into Homes"
- Implemented Equinox Core Banking System
- Sale of CDC shares in 2007 to Britam and Equity Bank
- Rights Issue in 2008
- MTN issued in 2010 for KShs. 7B

DIVERSIFICATION 2011–2016

INCORPORATION OF HF GROUP

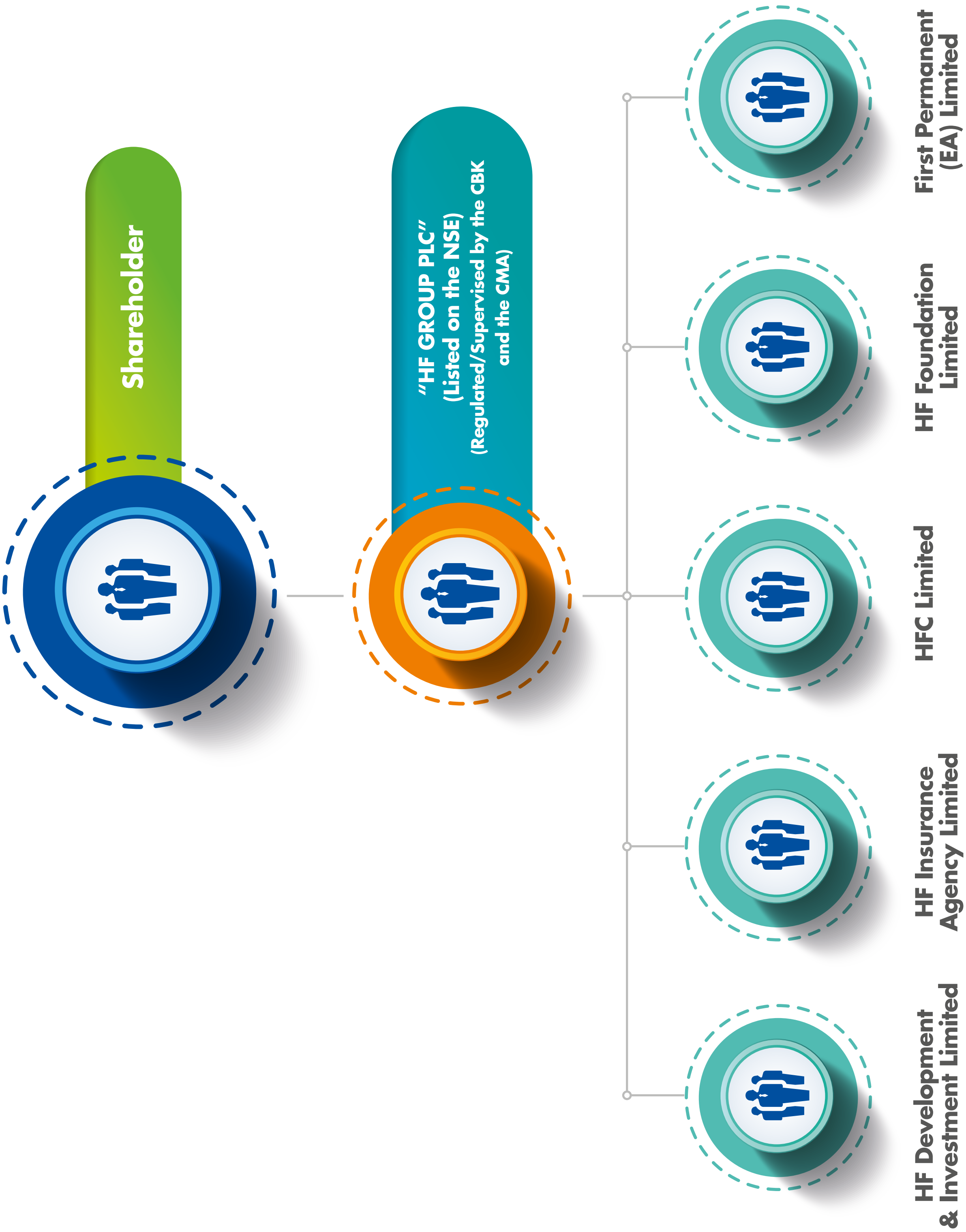
- MTN issued in 2012 for KShs. 3B
- In 2014, Britam increases shareholding
- Rights Issue in 2015
- Rebranding from Housing Finance to HF Group with 4 subsidiaries
- Launch full service banking proposition under Vision 2020
- From "Turning Dreams Into Homes" to "Dreams Made Possible"
- Implemented new core banking

TRANSITION 2017

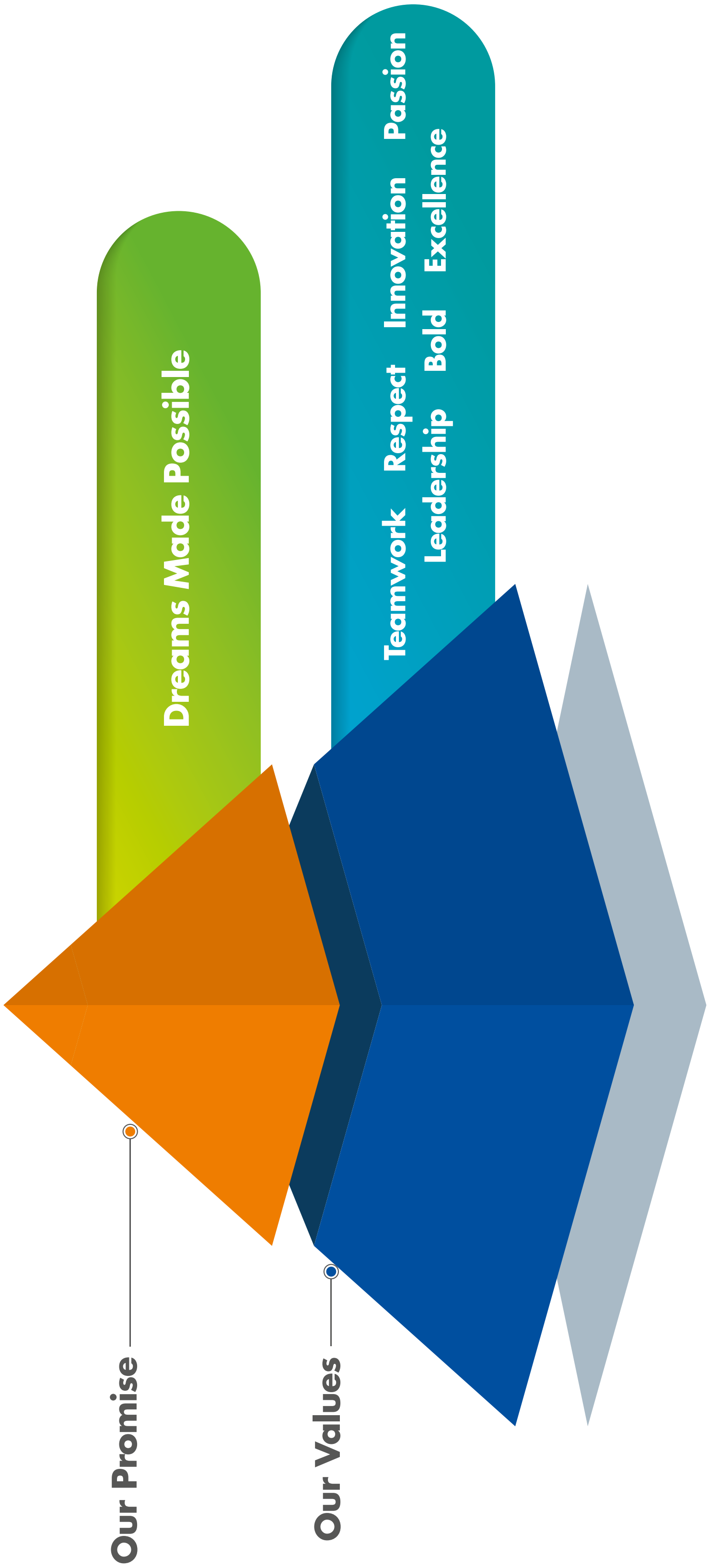
FULL SERVICE BANKING

- Repayment of KShs. 7B bond
- Launch - MasterCard, Internet Banking and Digital Website

THE GROUP STRUCTURE



PROMISE AND VALUES



GROUP OVERVIEW

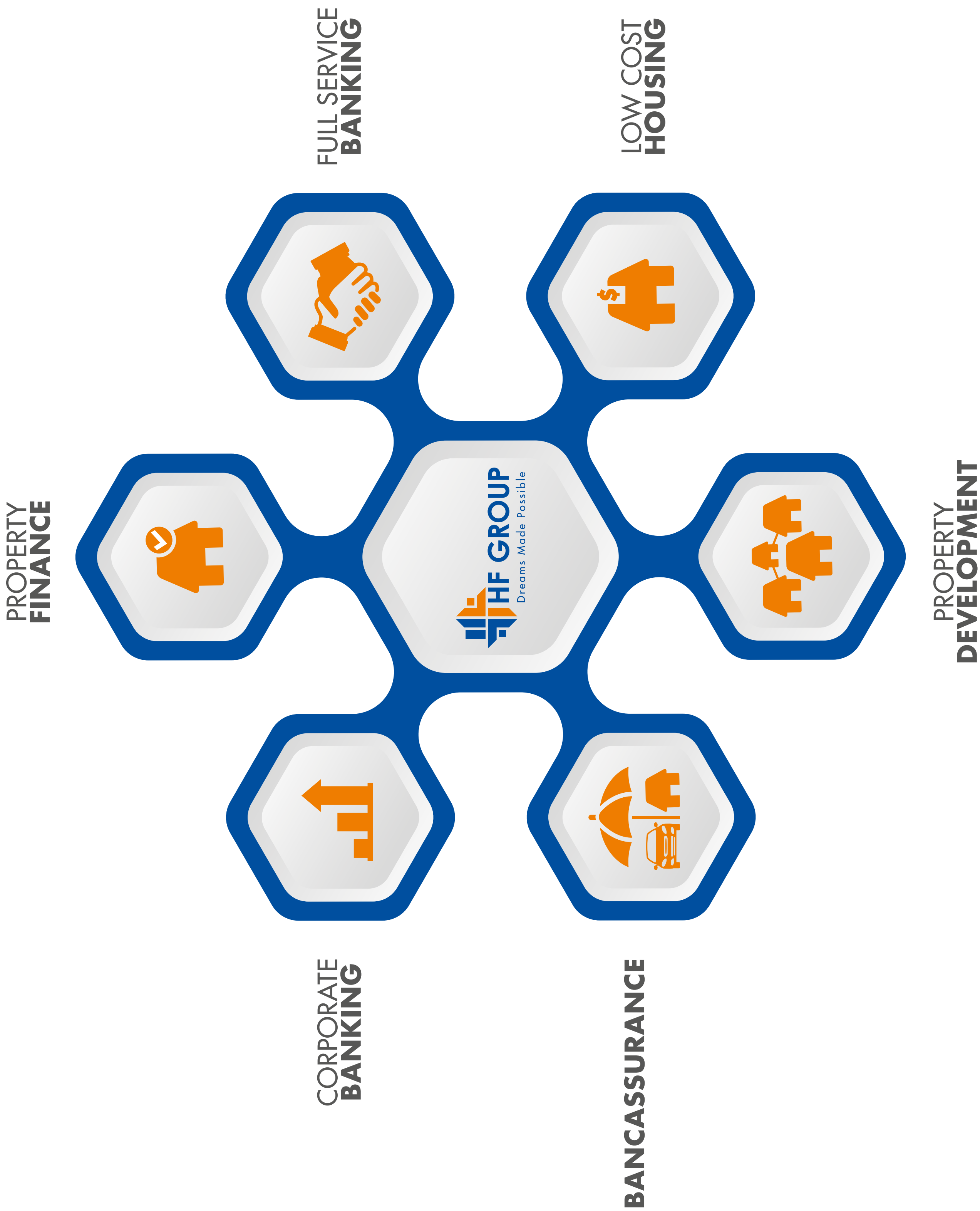
HF Group PLC (Formerly HF Group Limited), was registered as a non – operating holding company (under the Banking Act Cap.488), regulated by the Central Bank of Kenya (CBK) in August 2015. The holding company oversees the operations of the Group subsidiaries, which include HFC, HF Insurance Agency, HF 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 ensure optimal growth at both Group and subsidiary levels.

The Group is listed in the Nairobi Securities Exchange (NSE), and has four operational subsidiaries:

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

GROUP OVERVIEW (CONTINUED)

STRATEGIC THRUSTS



Worried about running short on cash while making payments?


HFC
Ultimate
Make all your payments the easy way with the HFC MasterCard Debit Card

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

NOTICE IS HEREBY GIVEN that the 52nd Annual General Meeting of the Company will be held at Nairobi on Friday 27th April 2018 at 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 2017, together with the Chairman's, the Directors' and Auditor's Reports thereon.
4. To declare a dividend of KShs. 0.35 per share for the financial year ended 31 December 2017 and approve the closure of the Register of Members at the close of business on 27th April 2018 and payment of dividend on 18th May 2018.
5. To elect Directors:
   a) Ms. Constance Gakonyo retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, offers herself 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.
6. In accordance with the provisions of Section 769 of the Companies Act, 2015 the following Directors, being members of the Group Board Audit & Risk Committee be elected to continue to serve as members of the said Committee:-
   - Ms. Felister Kembi
   - Mr. Adan Mohamed
   - Dr. Kaushik Manek
   - Ms. Gladys Karuri
7. To approve the Directors Remuneration
8. To reappoint Messrs KPMG Kenya as Auditors by virtue of Section 721 (2) of the Companies Act, No. 17 of 2015 and to authorise the Directors to fix their remuneration.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Bonus Issue

9. **Approval of Bonus Issue:-** To consider and, if thought fit, to pass the following resolution as an **ORDINARY RESOLUTION:**

   a) "THAT subject to receipt of requisite regulatory approvals, the sum of Kenya Shillings one hundred and seventy five million (KShs. 175,000,000) being part of the amount standing to the credit of revenue reserves be capitalised and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the share register as at 27th April 2018, to be allocated on or about 31st May 2018, on the condition that, the same be not paid in cash but applied in paying up in full at par thirty five million (35,000,000) of the unissued ordinary shares of KShs. 5.00 each in the authorised share capital of the company, and that such thirty five million (35,000,000) shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one (1) of such new share for every ten (10) of existing issued and paid up three hundred and fifty million (350,000,000) shares then held by such shareholders respectively (fraction of a share to be disregarded), and that, the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the Company held by each such shareholder and not as income and further that such shares shall rank pari passu for all purposes with the existing shares in the capital of the Company, and the directors be and are hereby authorised and directed to give effect to this resolution"; and ,

   (b) THAT should any of the said thirty five million (35,000,000) bonus shares not be issued by reason of fractions of a share being disregarded the same be retained as unallocated in the Company's reserves".

BY ORDER OF THE BOARD

Regina Anyika

Company Secretary

P.O. Box 30088, GPO 00100

NAIROBI

Date: 3rd April 2018

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 maybe obtained as indicated in note 2 below is enclosed and should be returned to HF Group PLC, Rehani House, Kenyatta Avenue, P.O. Box 30088, GPO 00100, Nairobi or to Shares Registrar Comprite Kenya, Cresent Business Centre 2nd Floor, opposite M.P. Shah Hospital to arrive not later than 11 AM on 25th April 2018.

   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 authorised 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 PLC (ZAMANI IKIJULIKANA KAMA HF GROUP LIMITED)**

NOTISI INATOLEWA KWAMBA, mkutano wa pamoja wa 52 wa mwaka wa kampuni utafanyika mjini Nairobi siku ya Ijumaa Aprili 27 2018 katika jumba la Mikutano ya **Kimataifa la Jomo Kenyatta International Convention Centre (KICC) Ukumbi wa AMPHITHEATRE** kuanzia saa tano asubuhi ili kutekeleza majukumu yafuatayo:

1) Kutaja mawakala na kutambua akida ya mkutano

2) Kusoma notisi ya kuitishwa kwa mkutano

3) Kupokea na endapo itapitishwa, kukubali mizania iliyokaguliwa na hesabu ya pesa kwa kipindi cha mwaka uliomalizika Desemba 31 2017 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa

4) Kutangaza malipo ya mgawo wa faida ya senti 0.35 kwa kila hisa kwa kipindi cha mwaka uliomalizika Desemba 31 2017 na kupitisha kufungwa kwa rejista kwa wanachama kufikia mwisho wa kipindi cha biashara mnamo Aprili 27 2018 na malipo ya mgawo wa faida ifikiapo Mei 18 2018

5) Kuwachagua wakurugenzi:
   a) Bi. Constance Gakonyo atastaafu kwa zamu kwa mujibu wa kifungu cha sheria za makampuni nambari 105 na kwa kuwa anastahili, anajitokeza kuchaguliwa tena

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

   c) Dr. Peter Kahara Munga atastaafu kwa zamu kwa mujibu wa kifungu cha sheria za makampuni nambari 105 na baada ya kutimiza miaka 70 anastaafu tena kwa mujibu wa sheria za maadili mema ya usimamizi wa mashirika ya utoaji dhamana kwa umma ya mwaka 2015 na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.

6) Kwa mujibu wa sehemu ya 769 ya vipengele vya sheria za makampuni ya mwaka 2015, wakurugenzi wafuatao ambao ni wanachama wa kundi la wakurugenzi katika kamati ya uhasibu na athari za kibiashara wachaguliwe tena kuendelea na jukumu lao kama wanachama wa kamati iliyotajwa:

   - Bi. Felister Kembi
   - Bw. Adan Mohamed
   - Dr. Kaushik Manek
   - Bi. Gladys Karuri

7) Kupitisha marupurupu ya wakurugenzi.

8) Kuteua tena KPMG Kenya kama wakaguzi wa pesa kwa mujibu wa sehemu ya 721 (2) ya sheria za makampuni nambari 17 ya 2015 na kuwaamuru Wakurugenzi kuamua marupurupu yao.

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA (ya endelea)

Swala la Mgawo wa Faida

9) Kupitishwa kwa swala la mgawo wa faida:- Kuzingatua na ikionekana kuwa inafaa, kupitisha maamuzi yafuatayo kama **AZIMIO LA KAWAIDA:**

a) "KWAMBA baada ya kupokea idhini inayohitajika ya serikali, kima cha Shilingi za Kenya Milioni mia moja na sabini na tano (KShs. 175,000,000) kama sehemu ya kiasi cha pesa zilizomo kwenye hifadhi ya mapato zigeuzwe mtaji na kisha kiasi hicho kiachiliwe huru kwa ajili ya kugawia wenyehisa wanaoshikilia hisa za kawaida zilizopo kwenye mtaji wa Kampuni katika sajili ya hisa kufikia tarehe 27 Aprili, 2018, na zichukuliwe siku ya au karibu na tarehe 31 Mei, 2018, kwa sharti kwamba, kiasi hicho kisilipwe kama pesa taslimu lakini kilipwe kwa ukamilifu kama shilingi milioni thelathini na tano (35,000,000) za hisa za kawaida ambazo hazijatolewa, za kiasi cha KShs. 5 kwa kila hisa, kwenye hisa za mtaji wa kampuni zilizoidhinishwa, na kwamba hisa hizo za milioni thelathini na tano (35,000,000) kama zilivyolipwa kikamilifu zigawanywe ifaavyo kwa wenyehisa hao kwa ngawira ya moja (1) ya hisa hiyo mpya kwa kila kumi (10) ya zile zilizopo zilizotolewa na kulipwa kwa jumla ya hisa milioni mia tatu na hamsini (350,000,000) kisha kumilikiwa na wenyehisa hao mtawalia (tarakimu ya kila hisa ipuuzwe), na kwamba, hisa hizo zilizotolewa zizingatiwe kwa madhumuni yote kama ongezeko la sehemu ya jumla ya mtaji wa Kampuni unaomilikiwa na kila mwenyehisa mhusika wala si kama mapato, na kadhalika kwamba hisa kama hizo ziorodheshwe kama zilizotolewa kwa usawa bila mapendeleo yoyote (Pari Passu) kwa madhumuni yote pamoja na hisa zilizopo kwenye mtaji wa Kampuni, na wakurugenzi wakuu waruhusiwe na kuelekezwa kupitisha maamuzi haya": na,

(b) KWAMBA iwapo patatokea kwamba yoyote kati ya swala la hisa hizo milioni thelathini na tano (35,000,000) haitatolewa kwa sababu ya tarakimu ya hisa inayopuuzwa, basi ishikiliwe kama isiyogawanywa, katika hifadhi ya Kampuni".

KWA AMRI YA HALMASHAURI

Regina Anyika

Katibu wa Kampuni

S.L.P 30088, GPO 00100 NAIROBI

Tarehe: 3 Aprili 2018

Muhimu:

1. Mwanachama aliye na haki kuhudhuria mkutano uliotajwa hapo juu na kupiga kura, ana uhuru wa kumteua wakala kuhudhuria na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama. Fomu ya uwakala inaweza kupatikana kama ilivyoonyeshwa kupitia dokezo la pili hapa chini na inafaa kuwasilishwa kwa HF Group PLC, Jumba la Rehani, Kenyatta Avenue, S.L.P 30088-00100 GPO, Nairobi, au kwa msajili wa hisa Comp-rite Kenya, Crescent Business Centre, orofa ya pili mkabala na M.P. Shah Hospital, na kupokelewa kabla ya saa tano asubuhi tarehe 25 Aprili, 2018.

   Endapo wakala aliyeteuliwa ni shirika au ofisi ya serikali, hati 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, S.L.P 30088-00100 GPO na Nairobi na pia kupitia matawi yetu yaliyosajiliwa kote nchini.

CHAIRMAN'S STATEMENT

Steve Omenge Mainda, **EBS**
Chairman

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Shareholders,

On behalf of the Board of Directors of HF Group PLC. I welcome you to the 52nd Annual General Meeting of the Group. I am pleased to present to you the Group's Financial Statement and the Auditors Report for the financial year ended 31st December, 2017.

Overview

2017 was a peculiar and difficult year. With two general elections and a negative macro-economic environment, the country experienced adverse economic growth. The financial services sector bore the brunt of this adverse environment, with a decline in profitability registered by most players. The slowdown in business was largely attributable to the interest rate capping that came into force in 2016 following the Banking (Amendment) Act 2016, which put a ceiling on the interest rates charged on loans, and placed a floor on the interest rates paid out on qualifying deposits.

Additionally, small and medium banks continue to suffer the impact of the "flight of deposits" stemming from the eroded public confidence, following the collapse of three banks in 2016, whose fate is yet to be fully resolved thus tying up investor and depositors funds. All these factors have seen a general slowdown in credit growth. The upshot of this was that, many banks opted to invest in Government securities.

Property development had a bearish run in terms of uptake, primarily due to the tight credit conditions, election related risk environment and slow transaction processes at the Lands Ministry. A process rated by a recent survey, as one of the barriers of transacting business in Kenya. In spite of all this, Kenya has the capacity, tenacity and resolve to withstand these challenges and move forward with a vision to earn a place of middle-income country by 2030. Navigating through this rough financial weather was and still is a challenging task.

The year saw the business suffer from reputational risk, courtesy of negative publicity received in the local dailies at the onset of the year and subsequently the same information published on social media.

I am happy to report that, in response to this, the Central Bank requested an audit of the business, and the report confirmed that the allegations were baseless. HF Group sailed through with equanimity, maintaining in place, a robust corporate governance framework and a strong compliance culture, service excellence and appropriate structures to support and fulfil the fiduciary duty to the shareholders.

During the year, the Board underwent an in-depth training on sustainability reporting, as the business aligns itself to sustainable business practices to position itself for posterity and accountability to all stakeholders.

With the prevailing conditions, the Board's focus now is to ensure continuous review of the business model to cushion the business against existing and emerging challenges and ensure buoyancy in future.

Successful Corporate Bond Redemption

Despite the tough operating environment, the business successfully paid out the first tranche of the 7 year Corporate Bond. This was a great milestone and a positive signal to all stakeholders on the stability of our business. The funds accrued from the Bond provided a key leverage upon which the Group's banking subsidiary continued to implement its growth strategy. On behalf of the Board, I commend the Management team for working diligently towards meeting our obligation to the bondholders.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Business Optimisation

The world business is changing fast and in fundamental ways. We experience rapidly evolving customer needs and ever-changing nature of technology and risk. In 2017, the Group invested in technology improvement and digital channels all geared towards enhanced operational efficiency and customer experience. The Management team has also put in place measures towards improving customer service experience, a key differentiator especially for our banking business where pricing is regulated.

Corporate Social Responsibility (CSR) Initiatives

As a Group, we continue to give back to the community through our Foundation's flagship corporate social investment initiative "Army of One Million Artisans".

Within the year, approximately 500 artisans underwent training through our internship and CBET based training programs. We will collaborate with like-minded partners in the public and private sectors to fulfil our vision of bridging the skills gap in the building and construction industry.

The year ahead

The economy is expected to rebound in 2018 as the political environment stabilises. However, it is anticipated that the interest rate capping and slowdown in credit will prevail and inadvertently have an impact on the earnings. The gridlock at the Ministry of Lands Registries should unlock, given the initiatives to digitise them. This will undoubtedly see closure of projects whose conveyancing process had previously stalled. As a business, we focus on diversified income streams and operating efficiencies to ensure that.

Gratitude

On behalf of HF Group Board, I would like to take this opportunity to express my appreciation to our esteemed customers for giving us an opportunity to serve them and to the shareholders for their trust and confidence in our capability. I convey my gratitude towards my fellow Members of the Board of Directors for their support at all times. My sincere thanks go to all employees of HF Group led by the Group Managing Director, for their hard work and commitment, despite the challenges experienced during the year under review. I express my gratitude to the Governor of Central Bank and his team for their continued support, guidance and unwavering cooperation. I would also like to thank CMA and NSE for their continued cooperation and guidance.

Finally, may I take this opportunity to express our renewed pledge to continue to add shareholders value through execution of prudent and compliant business practices while upholding keeping social, environmental and national priorities.

Steve O. Mainda, EBS
Group Chairman

TAARIFA KUTOKA KWA MWENYEKITI
KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31 2017

Kwa wanahisa,

Kwa niaba ya halmashauri ya wakurugenzi wa HF Group PLC, nawakaribisha kwenye mkutano wa 52 wa pamoja wa mwaka wa kundi. Nina furaha kuwaletea taarifa ya matumizi ya pesa ya kundi na ripoti kutoka kwa wahasibu kwa kipindi cha mwaka uliomalizika Desemba 31, 2017.

Mtazamo wa Biashara

2017 ulikuwa mwaka tofauti na mgumu. Huku kukiwa na chaguzi mbili kuu na mazingira magumu ya chumi ndogo, taifa lilishuhudia ukuaji hafifu wa kiuchumi. Sekta ya kifedha iliathirika kutokana na mazingira haya huku wadau wengi wakisajili kushuka kwa faida. Kupungua kwa kasi ya biashara kulichangiwa na mwongozo wa riba uliowekwa na kutumika mwaka 2016 kufuatia sheria ya benki (iliyofanyiwa marekebisho) ya mwaka 2016 ambayo inaweka viwango vinavyotozwa riba na taratibu za zinazolipwa kwa akiba iliyofuzu.

Zaidi ya hayo, benki ndogo na za kadri zinaendelea kuathirika kutokana na athari ya ''kushuka kwa akiba'' baada ya umma kupoteza imani yake kufuatia kuanguka kwa benki 3 mwaka 2016 ambazo hali yake inatarajiwa kutatuliwa kikamilifu hivyo kumtatiza muekezaji na akiba ya wawekezaji. Hali hizi zote zimeshuhudia kupunguka kwa jumla kwa ukuaji wa mikopo Maswala haya yote yameshuhudia kupungua kwa ukuaji wa mikopo huku benki nyingi zikiamua kuwekeza kwenye dhamana za serikali.

Ustawi wa raslimali ulikosa mwelekeo kuhusiana na uzinduzi na masharti finyu ya mikopo, maswala ya mazingira yanayohusiana na uchaguzi na mwendendo usio wa kasi katika wizara ya ardhi, hatua inayohusiana na utafiti wa hivi majuzi kama kizuizi mojawapo cha utekelezaji biashara nchini Kenya. Licha ya haya yote, taifa la Kenya lina uwezo, ari na suluhu kukabiliana na changamoto hizi na kuendelea mbele na ndoto ya kujiweka katika nafasi ya kiwango cha taifa ya kati ya upatikanaji mapato ifikiapo mwaka 2030. Kuendelea mbele chini ya mazingira haya makali ya kibiashara ilikuwa na itaendelea kuwa jukumu kali.

Mwaka ulishuhudia biashara ikiathirika kutokana na athari mbaya za utoaji taarifa zisizo sahihi kupitia magazeti ya humu nchini mwanzo wa mwaka na hatimaye kwenye mitandao ya kijamii.

Nina furaha kuripoti kwamba, baada ya haya, benki kuu ya Kenya iliomba ukaguzi wa biashara na ripoti iliyotolewa ikathibitisha kuwa madai yaliyotolewa hayakuwa na msingi. Kundi la HF lilifaulu kupitia haya na kudhibiti nafasi yake ya muundo thabiti wa usimamizi wa shirika na kuzingatia kikamilifu itikadi zake, utoaji imara wa huduma na miundo inayohitajika kusaidia kutimiza wajibu wake kwa wanahisa.

Wakati wa kipindi hiki cha mwaka, Halmashauri ilitekeleza mafunzo ya kina kuhusu udumishaji wa utoaji ripoti huku biashara huku ikijiandaa kuhakikisha kuwa imejiweka imara siku za baadaye na kuendelea kuwajibikia washika dau.

Kutokana na hali iliyoko, mtazamo wa Halmashauri ni kuhakikisha utathmini mpya wa muundo wa biashara na kuutumia ili kuiepusha dhidi ya changamoto zinazoweza kutokea kwa uthabiti siku za baadaye.

Kufaulu kwa ufidiaji wa dhamana za shirika

Licha ya mazingira magumu ya utekelezaji, biashara ililipa kikamilifu malipo ya kwanza ya miaka 7 ya dhamana za shirika. Huu ulikuwa ufanisi mkubwa na ishara njema kwa wanahisa wote kuhusiana na uthabiti wa biashara yetu. Pesa zilizopatikana kutokana na dhamana zilitoa muamala muhimu ambao kitengo tanzu cha benki za kundi kitaendelea kuimarisha mkakati wake wa ukuaji. Kwa niaba ya halmashauri, naipongeza timu ya usimamizi kwa kutekeleza jukumu lake ipasavyo ili kuafikia matakwa yetu kwa wanahisa.

Uimarishaji wa biasharaara

Kuna mabadiliko makubwa katika biashara za kimataifa na kwa njia maalumu. Tunashuhudia mabadiliko ya haraka ya mahitaji ya wateja na hali ya minyambuliko ya teknolojia na athari. Mwaka 2017, kundi liliwekeza mtaji kwenye ustawi wa teknolojia na miundo ya kidijiteli zote zikinuiwa kufanikisha utenda kazi na hisia za wateja. Timu ya usimamizi pia imeweka mikakati ya kuimarisha utoaji wa huduma kwa wateja ambayo ni muhimu sana kututengaisha hasa kwa biashara yetu ya benki ambapo bei zinasimamizwa.

TAARIFA KUTOKA KWA MWENYEKITI
KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31 2017 (Yaendelea)

Mikakati ya wajibu wa shirika kwa maslahi ya kijamii (CSR)

Kama kundi, tunandelea kuthamini jamii kupitia mwito wetu wa uwekezaji katika kujali maslahi yake ambao kauli mbiu ni ''Army of One Million Artisans''. Chini ya mwaka mmoja, takriban mafundi 500 walipata mafunzo kupitia mradi wetu na mipango ya mafunzo ya CBET. Tunaendelea kushirikiana na washirika wengine wenye mawazo sawa kwenye sekta za umma na za kibnafsi kuafikia ndoto yetu ya kupunguza pengo la ukosefu wa mafunzo katika sekta ya makao na ujenzi.

Mwaka ulio mbele

Uchumi unatarajiwa kuamuka tena mwaka 2018 huku mazingira ya kisiasa yakiimarika. Hata hivyo, inatarajiwa kwamba, kiwango cha riba kilichowekwa na kupunguka kwa mikopo kitashuhudiwa na kuathiri mapato. Vikwazo vilivyowekwa na wizara ya ardhi vinafaa kuondolewa kutokana na mikakati ya kuweka rejisita katika mfumo wa kidijiteli. Hali hii itashuhudia kufungwa kwa miradi ambayo hatua zake za kuhawilisha zilikuwa zimekwama hapo awali. Kama biashara, tunaangazia upanuaji wa mifumo mbali mbali ya kujipatia mapato na utendaji kazi unaofaa kuhakikisha kuwa tunawapa thamani wanahisa wetu na kutoa mchango katika ujenzi wa taifa letu tukufu.

Hitimisho

Kwa niaba ya halmashauri ya wakurugenzi wa HF Group, ningependa kutwaa nafasi hii kutoa shukrani zangu kwa wateja wetu kwa kutupatia fursa kuwahudumia na kwa wanahisa kutokana na imani yao kwa uwezo wetu. Natoa shukrani zangu kwa wanahalmashauri wenzangu kwa mchango wao wa kila wakati. Shukurani zangu za dhati ziwaendee wafakanyakazi wote wa HF Group wakiongozwa na Meneja Mkurugenzi wa Kundi kutokana na bidii na kujitolea kwao licha ya changamoto zilizoshuhudiwa mwaka unaoangaziwa. Natoa shukrani zangu kwa Gavana wa Benki Kuu na timu yake kwa mchango wao wa kila mara, mwongozo na ushirikiano wa dhati. Pia ningependa kushukuru CMA na NSE kwa kuendeleza ushirikiano na mwongozo wao.

Mwisho, nachukua fursa hii kuthibitisha kuendelea kwetu kuongeza thamani ya wanahisa kupitia uzingatiaji wa taratibu zinazofaa na kanuni za kibiashara huku tukidumisha mazingira ya kijamii na umuhimu wa kitaifa

Steve O. Mainda, EBS
Mwenyekiti Wa Kundi

GROUP MANAGING DIRECTOR'S STATEMENT

Frank Ireri, **EBS**
Group Managing Director

GROUP MANAGING DIRECTOR'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Shareholders,

The Group is well underway on the 5 year strategy "Vision 2020" that was rolled out in 2016. The strategy focuses on 5 strategic thrusts: the development of full service banking capability, scaling up on property development, creation of affordable housing, growing the corporate banking proposition and deepening the bancassurance capability. Since the launch of the strategy, the business has registered many achievements, which have resulted in growth of customer base, improved service experience and accessibility for our customers. These achievements include:

- The growth of the HFC branch network from 18 to 25
- Successful roll out of the new core banking system, which has increased operational efficiency
- Roll out of new banking solutions targeting SME and micro-segments
- Launch of new bancassurance products including life and medical insurance solutions
- Investment in digital banking channels with the rollout of our new interactive website, online banking, mobile app and MasterCard debit card
- Launch of new property projects including Clay City on Thika Super Highway and the second phase of Precious Gardens in Riruta
- Decentralisation of the property finance and bancassurance solutions from the head office to the branch network

The macro-economic and regulatory environment has shifted significantly since the Group launched this strategy. New Legislations enacted to streamline the banking industry have had an adverse impact on the operating landscape across the industry; the property business has also suffered the effects of the delays at the Ministry of Lands registries. As a result, there has been a significant slowdown in our business, which is evident in the drop in performance.

Financial Performance

HF Group performance declined significantly with a 77% dip in profitability because of the adverse macro-economic conditions and the slowdown in credit growth due to the interest rate capping. Key highlights on the performance are as below:

- Profit before tax of KShs. 311.624 million compared to KShs. 1.367 billion reported during a similar period in 2016
- Liquidity of 20.70% in 2017 down from 21.05% in a similar period in 2016 on account of significant cash outflows due to the retirement of the KShs. 7.03 billion Medium Term Note
- Total assets declined to KShs. 68 billion, down from KShs. 72 billion during a similar period in 2016 mainly due to reduced lending
- The asset quality declined with the non-performing loans increasing by 30% over 2017

GROUP MANAGING DIRECTOR'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Shifting focus to digital channels

As management, we continue to evaluate the Group's strategy to ensure that the business adapts to the prevailing external dynamics and remains profitable. The Group's banking subsidiary has shifted focus from the hitherto ambitious branch network expansion to investment in technology to enhance operational efficiency and increase access of services to customers. Similarly, the business is cognisant of the shift to digital financial solutions, an area which was previously the domain of Fintechs and has rolled out a virtual banking proposition, which has become a key area of focus for the banking subsidiary. In 2017, the Group also invested in alternative channels including an interactive website portal, MasterCard debit card, online banking and mobile app solutions. These solutions that come on the back of the core banking system launched in 2016, now present the business with a launching pad to unlock non-funded income revenue streams and reduce the cost of operations. All these are in line with the full service banking strategy and our goal to augment accessibility to a broader customer segment.

Focus on customer experience

With the amendment in the Banking Act, 2016 and the resultant interest rate capping, pricing is now standardised across the industry, leading us to renew focus on customer service experience as a key differentiator for our business. Managing customer expectations and delivering on our promise will continue to be a key performance indicator for the business. The management team has implemented a quarterly customer service survey that has improved employee focus on measures to improve service delivery.

As we continue to establish our position as the leading integrated financial solutions provider, we appreciate the value of growing visibility for the Group and creating awareness on what the Group represents.

Property development and sales

2017 saw the launch of Precious Gardens phase two, a joint venture project that comprises of 152 three-bedroom apartments. Richland Pointe, with 248 apartments, also a joint venture project is due for completion in 2018. The first phase of Komarock Heights consisting of 480 apartments is in its final stages and the business is now in the process of issuing occupation certificates to the homeowners. The Group is cognisant of the huge demand for housing in the country, with statistics placing the annual housing deficit at 200,000 units. Devolution opened up the 47 counties to investment opportunities, which in turn has seen the influx of labor and a strain on housing. With over 50 years' experience and expertise in the housing business, the Group is well positioned to collaborate with the Government to bridge this deficit. The management is already in discussions with the National Government and a number of counties on provision of affordable housing to civil servants. This private-public partnership model will support the Government's initiatives and provide civil servants with access to quality and affordable housing.

GROUP MANAGING DIRECTOR'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

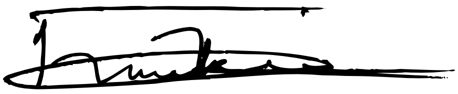
Capacity Building through the HF Foundation

The Group, through the HF Foundation, has taken a leading role in capacity building for the building and construction industry and the core pillars of the "Army of One Million Artisans", a flagship Vision 2030 project, are a direct response to this. In 2017, the Foundation in liaison with partners in the public and private sector focused on equipping youth with hands on skills, which increases their competency and employability. The program drew participants from select Technical and Vocational Training Institutions and imparted practical internship opportunities to complement the theoretical knowledge already received. 423 young people benefited from this program and we continue to create numerous similar opportunities for many more young people. Going forward, the Foundation will explore opportunities for strategic fundraising partners whose support will play a fundamental role in delivering the "Army of One Million Artisans" mandate.

Looking ahead

There is need to make some disclosures on IFRS 9 that will result in more provisions whose initial impact is disclosed in the Account Policies section. Management is making necessary business changes to ensure the management of long-term impact on the bottom line.

Our focus in 2018 is to deliver excellent service experience that exceeds stakeholder expectations and sets us apart in the industry. This will in turn translate to increased value for all our stakeholders.



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Frank Ireri, EBS
Group Managing Director

TAARIFA KUTOKA KWA MENEJA MKURUGENZI
KWA KIPINDI CHA MWAKA ULUOMALIZIKA DESEMBA 31 2017

Kwa wanahisa

Kundi liko shwari kwenye mkondo wake wa miaka 5 ya mkakati wake wa '' ruwaza ya 2020'' ambao ulizinduliwa mwaka 2016. Mkakati huu unaangazia maeneo 5 : ustawishaji kikamilifu wa uwezo wa utoaji huduma za benki , uimarishaji wa ustawi wa maendeleo ya ujenzi , uzinduzi wa makao nafuu, kukuza nafasi ya benki kimashirika na kupanua uwezo wa utoaji wa huduma za bima kupitia benki. Tangu kuzinduliwa kwa mkakati, biashara imesajili mafanikio mengi ambayo yamepelekea kuimarika kwa idadi ya wateja, uimarikaji wa utoaji huduma na kufikia wateja wetu. Mafanikio haya ni pamoja na:

- Kuimarika kwa mtandao wa matawi ya HFC kutoka 18 hadi 25
- Kufaulu vyema kuzinduliwa kwa mfumo mpya na muhimu wa benki ambao umefanikisha zaidi utoaji wa huduma
- Kuanzishwa kwa mbinu mpya za utoaji suluhu za benki ambao utaangazia vitengo vya wawekezaji wa chumi ndogo
- Kuzinduliwa kwa bidhaa mpya za huduma za bima kupitia benki zikiwemo bima za maisha na matibabu
- Uwekezaji katika mifumo ya kidijiteli kwenye benki huku tukianzisha wavuti wetu wa majadiliano, utoaji wa huduma za benki kupitia mtandao, simu na kadi ya ''MasterCard debit card''
- Kuzinduliwa kwa miradi mipya ya ujenzi ikiwemo Clay City kando mwa barabara ya Thika Super Highway na awamu ya 2 ya Precious Gardens huko Riruta
- Kugatua huduma za ufadhili wa raslimali na bima kutoka ofisi kuu hadi mitandao ya matawi.

Mazingira ya chumi ndogo na utoaji taratibu yamebadilika pakubwa tangu kundi lizindue mkakati huu. Masharti mapya yaliyowekwa kulainisha sekta ya benki yameathiri pakubwa mazingira ya utendakazi kote katika biashara hii; biashara ya raslimali pia imeathirika kutokana na ucheleweshwaji wa sajili za katika wizara ya ardhi. Kutokana na hili, kumeshuhudiwa kupunguka pakubwa na kasi kwa biashara yetu na kusababisha matokeo kushuka.

Matokeo ya fedha

Matokeo ya HF yalipungua kwa kiwango huku kukiwa na punguko la 77% la faida kutokana na hali ya chumi ndogo na kupungua kwa ukuaji wa mikopo kutokana na masharti ya kiwango cha riba yaliyowekwa. Vidokezo muhimu vya matokeo ni kama vifuatavyo:

- Faida kabla ya ushuru ya KShs. milioni 311, 624 ikilinganishwa na KShs. bilioni 1,367 kipindi sawa na hiki mwaka 2016
- Uwezo wa mtaji wa 20.70% mwaka 2017 ukishuka kutoka 21.05% kipindi sawa na hiki mwaka 2016 kutokana na kustaafishwa kwa KShs. bilioni 7.03 za mkopo wa muda wa miaka 5 hadi 10
- Jumla ya raslimali zilishuka hadi KShs.bilioni 68 kutoka KShs.bilioni 72 kipindi sawa na hiki mwaka 2016 kwa sababu ya kushuka kwa utoaji mikopo
- Thamani ya raslimali ilishuka huku mikopo isiyolipika ikiongezeka kwa 30% zaidi ya mwaka 2017

TAARIFA KUTOKA KWA MENEJA MKURUGENZI

KWA KIPINDI CHA MWAKA ULUOMALIZIKA DESEMBA 31 2017 (Yaendelea)

Kubadilisha mtazamo hadi mbinu ya kidijiteli

Kama wasimamzi, tunaendelea kutathmini mkakati wa kampuni kuhakikisha kwamba biashara inaafikiana na mabadiliko ya nje yanayoingia ili kuendelea kuzalisha faida. Kitengo cha kundi cha benki kimebadili mtamazo wake kutoka upanuzi wa mitandao ya matawi hadi uwekezaji kwenye teknolojia ili kuhamasisha utoaji huduma na uafikiaji haraka wa huduma zake kutoka kwa wateja. Sawa na hilo, biashara inatambua kubadilika hadi mfumo wa utoaji wa huduma kupitia dijiteli, mfumo ambao umekuwa eneo muhimu katika sekta ya benki. Mwaka 2017, kundi liliwekeza kwenye mbinu mbadala ikiwemo wavuti wa mawasiliano, kadi ya ''MasterCard debit card'' utoaji wa huduma za benki kupitia mtandao na mfumo wa kutumia simu ya mkono. Huduma hizi za mfumo wa benki zilizozinduliwa mwaka 2016, kwa sasa zinatoa nafasi nzuri biashara kufungua mikondo isiyofadhiliwa ya mapato na kupunguza gharama za utekelezaji. Haya yote yanafungamana kikamilifu na mkakati wa utoaji huduma na lengo letu la kuafikia kitengo cha wateja wengi.

Mtazamo kwenye hisia za wateja

Huku mswada wa sheria za beki wa mwaka 2016 uliofanyiwa mabadiliko na kutokana na viwango vya riba vilivyowekwa, uwekaji wa bei sasa umekuwa sawa katika sekta zote za benki na kutupelekea kubadilisha upya huduma za wateja ili kuifanya biashara yetu kuwa tofauti. Kushughulikia hisia za wateja na kufanikisha ahadi yetu kutaendelea kuwa kiashirio muhimu cha matokeo ya biashara yetu. Timu ya usimamizi imezindua utafiti wa kila baada ya miezi mitatu ambao umeimarisha mtazamo wa mfanyakazi kuhusu hatua anazofaa kuchukua ili kuimarisha utoaji wa huduma.

Huku tunapoendelea kutambua nafasi yetu kama kiongozi mtoaji huduma za pamoja za kifedha, tunatambua thamani ya kupanua nafasi yetu ya kundi na kuanzisha ufahamu wa yale kundi inawakilisha.

Maendeleo ya raslimali na mauzo

Mwaka 2017 ulishuhudia kuanzishwa kwa awamu ya pili ya Precious Gardens ambao ni mradi wa pamoja unaohusisha makao ya nyumba 152 zilizo na vyumba 3 vya kulala, Richland Pointe ina nyumba 248 ambao ni mradi wa pamoja unaotarajiwa kukamilika mwaka 2018. Awamu ya kwanza ya mradi wa Komarock Heights wenye nyumba 480 uko katika hatua za mwisho mwisho za kukamilika na unatarajiwa kutoa hati za umiliki kwa wamiliki. Kundi linatambua hitaji kubwa la makao nchini na tafiti zinaonyesha upungufu wa nyumba 200,000 kila mwaka. Ugatuzi ulifungua nafasi za uwekezaji katika kaunti 47 ambao pia umepelekea kuongezeka kwa mahitaji ya kazi na makao. Tukiwa na zaidi ya tajriba ya miaka 50 na utaalamu katika biashara ya ujenzi, kundi limejiweka kwenye nafasi nzuri kushirikiana na serikali ili kupunguza pengo hili. Tayari usimamizi umeanza mazungumzo na serikali kuu na baadhi ya serikali za kaunti kuanza ujenzi wa makao nafuu kwa watumishi wa umma. Ushirikiano na makundi ya kibinafsi na umma utasaidia mikakati ya serikali ya kuwapa watumishi wa umma nafasi ya kumiliki makao mazuri kwa gharama ya chini.

Uimarishaji wa uwezo kupitia Mradi wa HF Foundation

Kupitia mradi wa HF Foundation, kundi limechukua uongozi wa jukumu katika uimarishaji wa uwezo katika sekta ya ujenzi na makao kupitia mwito wake wa "Army of One Million Artisans" ambao ni ruwaza mradi wake wa mwaka 2030. Mnamo 2017, mradi huu ukishirikiana na washirika wa umma na sekta za kibnafsi, uliangazia kuwapa vijana uwezo wa mikono na mafunzo atakaoimarisha taaluma yao na kuwapa ajira. Mradi huu ulivutia washiriki kutoka taasisi za mafunzo anuwai na kiufundi viliyoteuliwa.

Baadhi ya vijana 423 walifaidi kutokana na mradi huu na tutaendelea mbele kuzindua miradi mingine kama hii itakayotoa nafasi kwa vijana wengi. Kuendelea mbele, mradi huu utatafuta nafasi za ushirikiano na washirika ambao mchango wao utatekeleza nafasi muhimu kufanikisha wajibu wa kuwa na ''mafundi milioni moja ''

TAARIFA KUTOKA KWA MENEJA MKURUGENZI
KWA KIPINDI CHA MWAKA ULUOMALIZIKA DESEMBA 31 2017 (Yaendelea)

Kuangazia siku za usoni

Kuna haja ya kufanya baadhi ya fichuzi kwenye IFRS 9 zitakazosaidia kuwepo kwa nafasi zaidi ambazo athari zake za kwanza zimeonyeshwa kupitia sehemu ya sera za uhasibu. Usimamizi unafanya mabadiliko yanayohitajika kibiashara kuhakikisha uthibiti wa athari za matokeo ya jumla.

Mtazamo wetu mwaka 2018 ni kutoa huduma za hali ya juu ambazo zitazidi matarajio ya mshika dau na kutuweka katika nafasi ya kipekee kwenye sekta ya biashara hii. Hii litapelekea kuongezeka kwa thamani ya washika dau wetu.

Frank Ireri, EBS
Mkurugenzi Msimamizi wa Kundi

MANAGEMENT TEAM

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

MANAGEMENT TEAM

Constantine Barasa | Regina Anyika | Tom Shivo | 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 INVESTEMENT (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

BOARD OF DIRECTORS

Mr. Steve Omenge Mainda, EBS
Group Chairman

Steve Mainda (EBS) is the current Chairman of HF Group PLC (Formerly HF Group Limited) and was appointed director on 3rd December, 2014. He has broad and extensive financial, insurance, investment, educational and management background in the Financial Services industry.

Mr. Mainda is a Fellow of the Institute of Directors of London and holds M.A and B.A Degrees from the Universities of Princeton and Cambridge. He holds directorships in Ryce EA Ltd, Sasini PLC, KK Security Group, Leisure Lodge Resort, ABC Capital among others.

Frank Ireri, EBS
Group Managing Director

Frank Ireri was appointed Group Managing Director of HF Group PLC (Formerly HF Group Limited), a Non-Operating Holding Company approved by Central Bank of Kenya (CBK), effective 1st July 2015. Prior to his appointment, Frank Ireri was the Managing Director of Housing Finance Company Of Kenya Limited, a position he has held since July 2006, a total of nine years. He is a well-seasoned banker with more than 20 years standing experience and joined the Company from Barclays Bank of Kenya where he was Head of Operations for Barclaycard Africa, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Citibank and Commercial Bank of Africa. During his banking career, he has had international exposure in Poland, Sri Lanka and Zambia.

Mr. Ireri is an Honorary Counsel member of AIESEC and previously held the role of Chairman to the AIESEC board of advisors. Between 2001 and 2002 he was also the Chairman of the Kenya Institute of Bankers.

In 2011, he was awarded the Elder of the Burning Spear by President Mwai Kibaki in recognition of his services to the nation in his various capacities. In 2014, he was declared the “Leadership & Ingenuity 2013 Kenya” winner in the Global 2014 Citi Distinguished Alumni Awards.

Frank holds a Bachelor of Commerce degree from the University of Nairobi and is also a Certified Public Accountant (CPA K).

Dr. Benson Wairegi
Non Executive Director

Dr. Benson Wairegi, EBS, has worked for Britam Holdings Limited in various capacities and is currently the Group Managing Director. He previously worked with Price Waterhouse, the forerunner of PricewaterhouseCoopers. He is director in Britam Holdings Limited, Britam Asset Managers Limited and he is also the Chancellor of Kenyatta University.

He holds a Bachelor of Commerce degree and Master of Business Administration (MBA) degree from the University of Nairobi and is also a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has significant insurance and financial services industry experience.

Dr. Peter K. Munga, EGH
Non Executive Director

Dr. Peter K. Munga is the Chairman of Equity Bank Limited, Chairman of National Oil Corporation (NOCK), Chairman of Micro-Enterprise Support Programme Trust (MESPT) and a director of Rockfeller Foundation, Equatorial Nut Processors and British-American Investments Company (Kenya) Ltd. He is an enterprising businessman and runs the Pioneer Group of Schools. He is a Certified Public Secretary with vast experience in both public and private sector management and holds a diploma in Human Resources and Financial Management.

Adan D. Mohamed, LLB (Hons) EBS
Non Executive Director

Adan D. Mohamed joined the board on 15th October 2012. Adan has extensive knowledge and expertise in Law having engaged in legal representation in and outside the country. He has also engaged in the training and evaluation of law enforcement officials in matters involving access to justice and eradication of inequalities based on race, gender or national origin.

Constance Gakonyo CPS (K), MCIArb, CBS
Non Executive Director

Constance Gakonyo is a strategic management expert with extensive legal and corporate governance experience. She has held a variety of senior management positions including that of Legal Consultant and head of the performance management portfolio for SABMiller Africa Asia (Pty) Limited. She holds a Law Degree from the University of Nairobi and an MBA in Strategic Management. Constance is a member of the Law Society of Kenya (LSK), Certified Public Secretaries CPS (K) and the Chartered Institute of Arbitrators. She sits on the Board of HF Group PLC (since 2014) and heads the Nomination and Governance Committee. Constance has also served on the Boards of East African Breweries Limited (EABL) and on the Group Boards of REAL Insurance Co. Ltd (Kenya, Malawi, Mozambique and Tanzania).

Dr. Kaushik Manek
Non Executive Director

Dr. Kaushik Manek was appointed as a Non-Executive Director of HF Group PLC (Formerly HF Group Limited) effective 26th June 2015.

Upon completing his education, locally in Kenya and the UK, earning himself a degree in Marketing and Advertising, Dr. Manek joined the family business in 1978 and has since been instrumental in its growth from a small retail shop in Nairobi to multi-faceted business interests in Kenya and beyond.

Dr. Manek is committed to both social and community service. This is exhibited through his extensive involvement with Rotary since 1997, having worked through the ranks within the club level and eventually serving as District Governor in 2008 - 2009. His social service spans beyond Rotary and is reflected through community leadership roles within the Lohana community, the Hindu Council and the Desai Memorial Foundation, amongst others.

Felister Kembi
Non Executive Director

Felister Kembi joined the board on September 2016. She is a graduate of the University of Nairobi with a degree in B.Com (Accounting). She is also a CPA (K) holder and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Felister has vast experience having worked for Kenya Airways, East African Portland Cement, Kenya Times, Bellhouse Mwangi, Ernst & Young and Roussel of EA later known as AgrEvo EA Ltd. mainly as an accountant, auditor and Finance Manager. She is also a director of Felicity Exclusive Designs, a major importer and distributor of clothing and household goods.

Gladys Karuri
Non Executive Director

Gladys Karuri joined the HF Group board in 2016. She is currently the Group Finance & Strategy Director at Britam. Gladys is a graduate of the University of Nairobi where she obtained her BA in Mathematics and Economics in 1998. She later obtained her MBA from the Warwick University, UK in 2015. Gladys is also a CPA and a member of the Institute of Certified Accountants of Kenya.

Gladys started her working career with PricewaterhouseCoopers in both Kenya and the United Kingdom in 2000 where she worked as a Senior Auditor and Assurance Manager. She left PricewaterhouseCoopers in 2007 when she joined British American (now Britam) as the Chief Finance Officer. In 2011 she was promoted to the position of Group Finance and Strategy Director of Britam Holdings Ltd.

SENIOR MANAGEMENT TEAM

Frank Ireri – Group Managing Director

Frank Ireri was appointed Managing Director in July 2006, and Group Managing Director on 1st July 2015. He is a seasoned Banker with more than 20 years standing experience and joined the Company from Barclays Bank of Kenya where he was Head of Barclay Card Africa, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Citibank and Commercial Bank of Africa. During his banking career, he has had international exposure in the Philippines, Poland, Sri Lanka and Zambia.

In 2014, as part of the Citi Alumni Network, he was awarded the distinguished alumni award for Leadership & Ingenuity in recognition of his tremendous achievements and innovations in the Kenyan mortgage finance industry.

In 2011, the former President H.E. Mwai Kibaki conferred upon him the Elder in the second class of The Order of the Burning Spear (EBS) in recognition of his distinguished service rendered to the Nation. Frank holds a Bachelor of Commerce degree from the University of Nairobi and is a Certified Public Accountant (CPA K).

Sam Waweru – Managing Director, HFC Limited

Sam joined HFC Limited (HFC) in December 2005 as the Head of Internal Audit. He began his career at Ernst & Young in 1992 as an accountant/auditor. He has also held the following positions prior to joining HFC; Senior Internal Auditor at Lonrho Africa Management Services, Head of Internal Audit at Uchumi supermarkets and Head of Internal Audit at Aga Khan Health Services, East Africa. Sam holds B.Com (Accounting) from the University of Nairobi and a Certified Public Accountant of Kenya (CPA K).

Constantine Barasa - Group Finance Director

Constantine joined HF Group in July 2006 as an Internal Auditor, rising through the ranks to become the Head of Internal Audit and was later promoted to Assistant General Manager - Risk and thereafter General Manager – Risk before being appointed to his current position.

Constantine holds MBA from the University of Nairobi, B.Com (Accounting) from the University of Nairobi and is a Certified Public Accountant of Kenya (CPA K) and a Certified Public Secretary of Kenya (CPS K).

James Karanja - Executive Director - HF Development and Investment Limited

James joined the Group in May 2009 as a Senior Manager - Project Finance. He was later promoted as Head of Project Finance in June 2010. He is currently the Executive Director – HFDI. James has over 10 years banking experience having previously worked at CFC Bank Limited and Co-operative Bank of Kenya Limited. James holds a Master in Business administration (MBA) qualification from Warbrough University UK and is a qualified member of the Associate Kenya Institute of Bankers (AKIB).

Caroline Armstrong - Director, Strategic Projects

Caroline joined the Group on 2nd May 2008. She is currently the Director – Strategic Projects.

Prior to joining the Group, Caroline worked with ABN AMRO Bank and Barclays Bank respectively. Caroline is a seasoned banker with 14 years experience. She has a Bachelor of Arts Degree (International Business Administration) from the United States International University.

Jane Surungai - Principal Officer & Assistant General Manager, HF Insurance Agency Limited

Jane joined the HF Group in November 2002 as Insurance Manager and has grown to the current position of AGM & Principal Officer, and is also a Director of HFIA. Jane has over 20 years' experience in insurance, having previously worked in the insurance industry. She holds a Bachelor of Commerce (Hons.) degree from the University of Nairobi, and is a Fellow of the Chartered Insurance Institute (UK) as well as Fellow of the Insurance Institute of Kenya.

Jane is an Executive member of the Insurance Institute of Kenya, the body that oversees professionalism in the insurance industry.

Tom Shivo - Group HR Director

Tom is a seasoned HR practitioner with 23 years working experience, 20 of which have been in the Human Resources field. He has previously worked at Safaricom as the Head of Business Partners (Commercial Divisions); Airtel Africa as the HR Director (Talent Management) and had a stint in Nigeria as the HR Director for Airtel Nigeria. He has also worked at Kenya Airways, where he was the Head of HR Relationships & Reward, and also acted as the HR Director for close to a year. At Coca-Cola Sabco, he was the Country HR Manager for the Kenya business, and prior to this he was the HR Manager at The Nairobi Hospital. He has been a HR consultant with Hawkins Associates /KHI Training, and a teacher in his early career days.

Tom holds an MBA in Human Resources from University of Nairobi, a Bachelor of Education from Kenyatta University and a Higher National Diploma in Human Resources. He also holds an Advanced Leadership certificate from GIBBS Institute (Pretoria University) and Christ Church (Oxford University).

Regina Anyika - Director Legal Division and Company Secretary

Regina joined HF Group PLC (formerly HF Group Limited) in September 2013. She is currently the Director – Legal Services and Company Secretary. Prior to joining the bank, Regina worked with the Co-operative Bank of Kenya Limited and Senator Cards Limited. She holds an MBA (Employee Relations) from the University of Leicester, LLB from the University of Nairobi, diploma from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPS K).

George Njuguna – Chief Information Officer

George joined the company as the Chief Information Officer. He has over 15 years' experience in ICT. Specifically, he has over 10 years experience in banking related technology, transactional banking, product development, project management, digital channels, data security and system integration. He has held various technical and senior management roles locally, regionally and internationally. George holds a Bachelor of Science Degree and MBA from Geneva College in Pittsburgh Pennsylvania.

Achieng Oluoch - Head of Marketing

Achieng has over 10 years' experience in marketing communications. Her current role as Head of Marketing includes spearheading the development and execution of marketing & communication strategies; management of the corporate brand image across different channels and stakeholders; product development.

She holds a Master of Commerce Degree (IBM) from Strathmore University, Bachelor of Arts Degree in Communication and Media Technology (Public Relations), Maseno University and Diploma in Project Management from the Kenya Institute of Management.

Francis Kinyanjui - Head of Business Development, HFIA

Francis holds a Bachelor of Arts Degree in Economics from the University of Nairobi and a Diploma in Insurance (AIIK) from the college of Insurance. He also holds a Masters degree in International Relations from the United State International University-USIU and is an Associate member of the Insurance Institute of Kenya (AIIK). He has over 10 years' experience in the Insurance industry, with a wealth of experience in Insurance Underwriting, Product Development, Marketing and Business Development, strategy formulation and development of the Bancassurance proposition. Prior to joining HF Insurance Agency in 2016, Francis worked for National Bank Insurance Agency, Equity Insurance Agency and Corporate Insurance Company Ltd. where he held senior management positions.

Joseph Ngare - General Manager, Audit

Joseph joined HFC on 19th April, 2010 as the Head of Audit. Prior to joining the Company, Joseph worked with Gulf African Bank and Cooperative Bank of Kenya Limited.

Joseph holds a Bachelor of Commerce degree (Finance Option) and is a qualified Certified Public Accountant (Kenya), Certified Internal Auditor (CIA) and a Certified Quality Assessor (QA).

PICTORIAL OF 2017 ACTIVITIES


Artisan Graduation at Komarock Heights


Artisans Information Sharing Forum at Komarock Heights


Komarock Heights Open Day

Komarock Heights Open Day


Komarock Heights Open Day


Richland Pointe Open Day

PICTORIAL OF 2017 ACTIVITIES

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

Shareholders follow the proceedings at the 2017 AGM

HFC MD Sam Waweru addresses members of Maendeleo ya Wanawake

Peter Nganga, Director Treasury, speaks to members of Maendeleo ya Wanawake as HFC staff look on

The Directors of Precious Heights Limited at the Phase 2 Ground Breaking Ceremony

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements for the year ended 31 December 2017 which 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. Change of name

Persuant to section 53 of the Kenyan Companies Act, 2015, the company changed its name from HF Group Limited to HF Group PLC on 5th June, 2017.

3. Results and appropriations

	2017 KShs'000	2016 KShs'000
Gross income	**8,479,053**	**9,363,048**
Profit before taxation		
HF Group PLC (Formerly HF Group Limited)	(15,899)	(74,343)
HFC Limited	373,047	1,464,287
HF Development and Investments Limited	(60,718)	(46,219)
First Permanent (East Africa) Limited	468	(109)
HF Foundation	(6,141)	1,553
HF Insurance Agency Limited	20,867	20,484
Group profit before taxation	**311,624**	**1,365,653**
Taxation	(185,408)	(459,824)
Profit after taxation	**126,216**	**905,829**
Retained profit and available for sale reserves brought forward	3,819,826	3,166,404
	3,946,042	**4,072,233**
Dividends –paid/proposed	(122,406)	(174,754)
Change in fair value of available for sale investments net of taxes	27,664	(17,212)
Transfer to statutory reserve	(187,313)	(60,441)
Retained profit and available for sale reserves carried forward	**3,663,988**	**3,819,826**

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. Dividend

The Directors recommend a final dividend payment of KShs. 122,358,833 (2016 – KShs. 174,690,834). An interim dividend amounting to KShs. Nil (2016 – Nil) was paid during the year. The total dividend for the year is therefore KShs. 0.35 per share (2016 – KShs. 0.50), amounting to a total of KShs. 122,358,833 (2016 – KShs. 174,690,834).

5. Directors

The Directors who served during the year and up to the date of this report are set out on page 2.

6. Business Overview

The year 2017 experienced adverse macro-economic conditions in addition to interest rate capping which led to a slowdown in credit growth and effectively contributing to a significant drop in profitability. The political environment is expected to stabilise in the year 2018 while the interest rate capping will prevail and inadvertently have an effect on future earnings. As a business, we shall focus on diversifying our incomes streams and increasing operating efficiencies so as to deliver value to you as our shareholders.

7. Auditors

To note that Messrs KPMG Kenya have expressed their willingness to continue in office as Auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorise the Directors to fix the Auditor's remuneration for the ensuing financial year.

8. Relevant audit information

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

- There is no relevant audit information of which the Company's auditors are unaware; and
- 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 auditors are aware of that information.

9. Approval of financial statements

The financial statements set out on pages 63 to 133 were approved and authorised for issue at a meeting of the directors held on 28th March, 2018.

BY ORDER OF THE BOARD

Regina Anyika

Company Secretary

Date: 28th March, 2018.

RIPOTI YA WAKURUGENZI
KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2017

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa zilizowekwa pamoja na taarifa nyingine za matumizi ya pesa kwa kipindi cha mwaka uliomalizika Desemba 31 2017 ambazo zinafichua 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 kibinafsi na wa umma kufadhili umiliki wa makao, na suluhu la benki kwa mashirika na huduma za reja reja, kubuni na kuuza nyumba za kuishi na uwakala wa biashara za bima pamoja na uwekezaji wa kijamii.

2. kubadilishwa kwa jina

Kwa mujibu wa sehemu ya 53 ya sheria za makampuni nchini Kenya ya mwaka 2015, kampuni ilibatilisha jina lake kutoka HF Group Limted hadi HF Group PLC mnamo Juni 5, 2017.

3. Matokeo na Makadirio

	2017	2016
Mapato Kwa jumla	**KShs'000**	**KShs'000**
	8,479,053	**9,363,048**
Faida kabla ya ushuru		
HF Group PLC (Awali HF Group Limited)	(15,899)	(74,343)
HFC Limited	373,047	1,464,287
HF Development and Investments Limited	(60,718)	(46,219)
First Permanent (East Africa) Limited	468	(109)
HF Foundation	(6,141)	1,553
HF Insurance Agency Limited	20,867	209,484
Faida ya kundi kabla ya ushuru	**311,624**	**1,365,653**
Ushuru	(185,408)	(459,824)
Faida baada ya ushuru	**126,216**	**905,829**
Faida iliyohifadhiwa na iliyo tayar Kuuzwa na hazina zilizowasilishwa	3,819,826	3,166,404
	3,946,042	**4,072,233**
Mgawo- uliolipwa / uliopendekezwa	(122,406)	(174,754)
Mabadiliko ya thamani kwa raslimali zilizoko kwa Madhumuni ya kuuzwa na ushuru kwa jumla	27,664	(17,212)
Kuhamishwa kutoka hazina ya kisheria	(187,313)	(60,441)
Faida iliyohifadhiwa na iliyoko kwa madhumuni ya mauzo yaliyowasilishwa mbele	**3,663,988**	**3,819,826**

RIPOTI YA WAKURUGENZI
KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2017

4. Mgawo wa Faida
Wakurugenzi wanatoa pendekezo la malipo ya mwisho ya mgawo wa faida ya KShs. 122,358,833 (2016 yalikuwa KShs. 174,690,834) Malipo ya awali ya KShs. - Hakuna (2016 yalikuwa- bure) yalitolewa wakati wa kipindi hiki cha mwaka. Kwa hivyo, malipo yote kwa jumla ya mgawo wa faida yatakuwa Senti 0.35 kwa kila hisa (2016 yalikuwa KShs. 0.50) na kuwa jumla ya KShs. 122, 358, 833 (2016 yalikuwa KShs. 174, 690, 834).

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

6. Mtazamo wa biashara:
Mwaka 2017 ulishuhudia hali isiyofaa katika sekta ya chumi ndogo na zaidi viwango vilivyowekewa riba vilivyosababisha kupungua kwa ukuaji wa mikopo na kuchangia pakubwa kupunguka kwa faida.

Mazingira ya kisiasa yanatarajiwa kuimarika mwaka 2018 huku viwango vilivyowekewa riba vikizidi kutumika na kuathiri mapato siku za usoni. Kama biashara, tutaangazia kupanua njia za mapato yetu na kuzidisha utoaji huduma ili kuzalisha thamani kwa wanahisa wetu.

7. Wakaguzi wa pesa
Kutambua kwamba wakaguzi wa pesa KPMG Kenya wataendelea na jukumu lao kwa mujibu wa sehemu ya 721 (2) ya sheria za makampuni ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupururu ya wakaguzi wa pesa kwa kipindi cha mwaka unaofuata.

8. Maelezo muhimu ya ukaguzi wa pesa
Wakurugenzi wanaohudumu kipindi hiki cha tarehe hii wanathibitisha kwamba:

- Hakuna maelezo yoyote muhimu ambayo wakaguzi wa pesa za kampuni wasiyoyafahamu
- Kila mkurugenzi amechukua hatua zinazohitajika kuchukuliwa kama mkurugenzi kufahamu maelezo yoyote ya uhasibu yanayofaa na kufahamu kwamba wakaguzi wa kampuni wanafahamu maelezo hayo.

9. Kuidhinishwa kwa taarifa za matumizi ya pesa
Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 63 hadi 133 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 28 Marchi, 2018.

KWA AMRI YA HALMASHAURI

Regina Anyika
KATIBU WA KAMPUNI

Tarehe: 28 Marchi, 2018

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

HF Group PLC (Formerly HF Group Limited) ("the Group") is pleased to present the Directors' remuneration report for the year ended 31 December 2017. This report is in compliance with the Group's remuneration policy, CMA Code of Corporate Governance Guidelines on Directors' remuneration and the 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 member (director) is effective and continue to pursue the business strategy. Performance of each member is evaluated annually and communicated appropriately. All members are expected to observe attendance of the board meetings and make valuable contributions depending on each member's area of speciality. The remuneration is disclosed through the periodic publications made by the Group.

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

Frank Ireri	Group Managing Director
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 directors' remuneration, as approved by the shareholders on 29th April, 2016.

For the financial year ended 31 December 2017, remuneration and other incentives for the Board was as summarised below:

Non-executive Directors

Name	2017 Fees	2017 Sitting Allowance	2017 Total KShs'000	2016 Fees	2016 Sitting Allowance	2016 Total KShs'000
Steve O. Mainda	5,199	-	5,199	5,324	-	5,324
Dr. Benson Wairegi	488	1,300	1,788	488	1,352	1,840
Dr. Peter K. Munga	488	704	1,192	488	952	1,439
Adan D. Mohamed	648	1,872	2,520	648	1,248	1,896
Constance Gakonyo	488	1,040	1,528	488	468	956
Dr. Kaushik Manek	488	1,040	1,528	488	676	1,164
Felister Kembi	488	572	1,060	85	208	293
Gladys Karuri	488	572	1,060	55	156	211
	8,772	7,100	15,872	8,062	5,060	13,122

Executive Directors

Name	2017 Basic Pay	2017 Non-Cash benefits	2017 Gratuity	2017 Total KShs'000	2016 Basic Pay	2016 Non-Cash benefits	2016 Gratuity	2016 Total KShs'000
Frank Ireri	44,476	6,150	13,787	64,413	44,476	5,834	13,787	64,097

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Aggregate loans to directors and senior management amounted to KShs. 234,890,009. The Group will not be proposing to make any changes to the executive and 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 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.

Approval of the director's remuneration report

The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules and reflects the disclosure requirements under IFRS.

BY ORDER OF THE BOARD

Regina Anyika
Company Secretary

Date: 28th March, 2018

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of HF Group PLC (Formerly HF Group Limited) ("the Group") 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 code of Corporate Governance Practises for issuers of securities to the public*** in Kenya issued by the Capital Markets Authority in December 2015 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 K. Munga
- Frank Ireri (Group Managing Director)
- Gladys Ogallo (Director, HFC Limited)

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

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2017 (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:

- Felister Kembi (Chairman)
- Adan D. Mohamed
- 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 accounts;
- 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 its 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 authorise management to develop and implement any additional polices relating to risk management.

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2. Board and Management Committees (continued)

(b) Board Audit & Risk Committee (BARC) (continued)

- 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 bank'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. Mohamed
- Kaushik Manek
- Gladys Ogallo (Director, HFC Limited)
- Frank Ireri (Group Managing Director)

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;
- 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)
- Gladys Ogallo (Director, HFC Limited)
- 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;

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2. Board and Management Committees (continued)
(c) Board Marketing Committee (Continued)

- 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 2017	Board meetings				Total attendance
Date	27/2	19/4	18/7	5/12	
Steve O. Mainda	✓	✓	✓	✓	**4**
Frank Ireri	✓	✓	✓	✓	**4**
Benson Wairegi	✓	✓	✓	✓	**4**
Peter K. Munga	✓	✓	X	✓	**3**
Adan D. Mohamed	✓	✓	✓	✓	**4**
Constance Gakonyo	✓	✓	X	✓	**3**
Kaushik Manek	✓	✓	✓	✓	**4**
Felister Kembi	✓	✓	✓	✓	**4**
Gladys Karuri	✓	✓	✓	✓	**4**

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 2018, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairman, overall Board and the various committees. 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.

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 to the financial statements.

7. Major shareholders as at 31 December 2017

	Name	No of shares	% age shareholding
1	Britam Investment Company (Kenya) Ltd	67,878,315	19.42%
2	Equity Nominees Limited A/C 00104	44,389,525	12.70%
3	Britam Insurance Company (Kenya) Ltd	32,628,258	9.33%
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	4,556,887	1.30%
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	**215,016,445**	**61.50%**

8. Distribution of shareholders as at 31 December 2017

Number of shares	No. of shareholders	No. of shares held	% age shareholding
1-500	9,442	2,454,395	0.70%
501-1,000	4,087	3,452,212	0.99%
1,001-10,000	12,136	35,033,040	10.02%
10,001-50,000	1,261	25,523,625	7.30%
50,001-100,000	149	10,592,420	3.03%
100,001-1,000,000	115	27,954,928	8.00%
Over 1,000,000	22	244,586,047	69.96%
TOTAL	**27,212**	**349,596,667**	**100%**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of HF Group PLC (Formerly HF Group Limited) set out on pages 63 to 133 which comprise the consolidated and separate statements of financial position as at 31 December 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the financial statements including 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 consolidated and separate 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 financial position of the Group and the Company as at the end of the financial year and of the profit and loss of the Group and Company for that year. It also requires the Directors to ensure the Group and Company and keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual and consolidated 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 and Company operating results and cash flows.

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 and authorised for issue by the Board of Directors on 28th March, 2018.

Frank Ireri: ______________________
Director

Steve Mainda: ______________________
Chairman

Felister Kembi: ______________________
Director

ReginaAnyika: ______________________
Company Secretary

Date: 28th March, 2018

TAARIFA KUHUSU WAJIBU WA WAKURUGENZI

Wakurugenzi wana wajibu wa kuandaa na kutoa taarifa za pamoja na za pamoja na zilizowekwa kando za matumizi ya pesa ya HF Group PLC (Zamani ikijulikana kama HF Group Limited Company Limited)

kama ilivyofafanuliwa kutoka uk. 63 hadi 133 ambazo zinajumuisha taarifa za pamoja na za kando za hali ya kifedha kufikia Desemba 31, 2017 na taarifa ya pamoja na kando kuhusu mapato au hasara na maelezo mengine ya kina kuhusu mapato, taarifa za pamoja na kando za kampuni kuhusu mabadiliko ya umiliki wa hisa na na taarifa za pamoja na kando kuhusu mtiririko wa fedha kwa kipindi cha mwaka uliomalizika na vidokezo kuhusu taarifa za matumizi ya pesa ikiwemo muhtasari wa vipengele muhimu vya sera za uhasibu na ufafanuzi wa maelezo mengine.

Wajibu wa wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni ile iliyokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kwa hali ilivyo ; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu kwa maandaalizi na utoaji wa taarifa hii ya matumizi ya pesa ambayo haina udanganyifu wowote, hila au makosa, kutenga na kutumia sera mwafaka za ukaguzi wa pesa na kuweka makadirio ya maana ya uhasibu

Chini ya sheria za makampuni nchini Kenya ya mwaka 2015, wakurugenzi wanahitajika kuandaa taarifa ya matumizi ya pesa kwa kila kipindi cha matumizi ya pesa ambayo itatoa taswira (picha) halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na pia matokeo ya shughuli. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi na kampuni zinahifadhi vyema rekodi za hesabu ambayo itafichua makadirio ya maana ya hali ya pesa ya kampuni na kundi na kampuni.

Wakurugenzi hukubali kuchukua jukumu kuhusu taarifa ya ukaguzi wa pesa ambayo imetayarishwa kwa kufuata kanuni za ukaguzi wa pesa zinazohitajika na zinazoungwa mkono na uhakiki wa maana na makadirio yanayofaa kwa kufungamana na viwango vya kimataifa na kwa njia inayolingana na sheria za makampuni nchini Kenya ya mwaka 2015. Wakurugenzi wanakubaliana kwa kauli moja kwamba, taarifa ya ukaguzi wa pesa inaonyesha 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 ukaguzi wa pesa zinazoweza kutegemewa wakati wa kuandaa taarifa ya hesabu pamoja na taratibu za kudhibiti ukaguzi wa ndani wa kila siku wa fedha.

Wakurugenzi wamefanya uchunguzi wa kundi na uwezo wa kundi na kampuni kuendelea na shughuli zake na hawana tashwishi kuamini kwamba, kundi na kampuni hazitasitisha shughuli zao kwa kipindi cha miezi kumi na mbili ijayo kuanzia tarehe ya kutolewa kwa taarifa hii.

Kuidhinishwa Kwa Taarifa ya Matumizi ya Pesa

Taarifa ya matumizi ya pesa kama zilivyoonyeshwa hapo juu ziliidhinishwa na halmashauri ya Wakurugenzi mnamo 28 Marchi, 2018 na kutiwa sahihi kwa niaba yake na :

Frank Ireri: ______________________
Mkurugenzi

Steve Mainda: ______________________
Mkurugenzi

Felister Kembi: ______________________
Mkurugenzi

Regina Anyika: ______________________
Katibu wa Kampuni

Tarehe: 28 Marchi, 2018

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HF GROUP PLC (Formerly HF Group Limited)

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of HF Group Plc (the group and company) set out on pages 63 to 133 which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of HF Group Plc as at 31 December 2017 and of the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 consolidated and separate 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 consolidated and separate financial statements in Kenya and, we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Impairment of loan and advances to customers	
See accounting policy note 6(a)(i) - Significant accounting policies and disclosure note 18 – Mortgages and advances.	
The key audit matter	**How the matter was addressed**
Impairment of mortgage 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.	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;

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters - continued

<table>
<tr><th colspan="2">Impairment of loan and advances to customers (Continued)</th></tr>
<tr><td colspan="2">See accounting policy note 6(a)(i) - Significant accounting policies and disclosure note 18 – Mortgages and advances.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed</th></tr>
<tr><td>The Group and Company's mortgage and advances are carried at amortised cost in the consolidated financial statements and are assessed for impairment at the reporting date.

The estimation of the impairment loss allowance on an individual basis requires management to make judgments to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.

The collective impairment loss allowance relates lossess incurred but not yet identified (IBNR loss allowance) on other loans. The audit matters include controls over the model used, accuracy of input and appropriateness of model.</td><td>Assessing and testing the design and operating effectiveness of the controls over the Group and Company's loan impairment process – for example:

• Controls over the model process, including monitoring, periodic validations and approvals.

• Controls over completeness and accuracy of data input into the model.

• Controls over the identification of which mortgage and advances were impaired. For individually significant loans this included controls over credit grading and monitoring process; and

• The management review process over the calculations;

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 and company's exposure to credit risk.</td></tr>
</table>

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters - continued

Provisions and contingent liabilities in respect of litigations	
See accounting policy note 3 (m) – Significant accounting policies and disclosure note 35 - Contingent liabilities.	
The key audit matter	**How the matter was addressed**
The Group and Company are subject to claims, which could have an impact on the group's and company'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 operated by the group and company over litigations. We held discussions with the group's and company'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 and company's external legal 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 and company's disclosures made in relation to contingent liabilities.

Information Technology (IT) systems and control	
We identified the Group's IT systems, and automated and IT dependent manual controls over financial reporting as an area of focus and an area that required more effort. The purpose of the work was to support our ability to rely on controls for the purpose of this report, as the group's financial accounting and reporting systems are heavily dependent on complex systems. In particular, the calculation, recording and financial reporting of transactions and balances related to revenue, interest costs, fees and commissions, mortgage and advances, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. A particular area of focus related to logical access management including privileged access and developer access to the production environment.	Our audit procedures in this area included, among others: • Evaluating the design and testing the operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. • Examining the framework of governance over the group's IT organisation and the controls over access to programs and data, program changes, IT operations and program development. • Where necessary, carrying out direct tests of certain aspects of the security of the group's IT systems including logical access management and segregation of duties.

Report on the audit of the consolidated and separate 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 thereon.

Our opinion on the consolidated and separate 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 consolidated and seprate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 consolidated and separate financial statements

As stated on page 51, the directors are responsible for the preparation and fair presentation of these financial statements that give a true and fair view in accordance with IFRSs, 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated and separate 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 consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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) In our opinion, the information in the report of the directors on pages 40 and 41 is consistent with the financial statements;

(ii) In our opinion, the auditable part of the directors' remuneration report on pages 44 and 45 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) Our report is unqualified.

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

Certified Public Accountants,

P.O. Box 40612 - 00100 Nairobi.

Date: 28th March, 2018

RIPOTI YA WAKAGUZI WA PESA WA KUJITEGEMEA KWA WANACHAMA WA HF GROUP PLC

Ripoti ya ukaguzi wa pamoja na wa kando wa taarifa za matumizi ya pesa

Maoni

Tumefanya ukaguzi wa pamoja na wa kando wa matumizi ya pesa ya HF Group PLC (kundi na Kampuni) kama zilivyoonyeshwa kupitia ukurasa wa 63 hadi 133 ambazo zinajumuisha taarifa ya pamoja na ya kando ya hali ya kifedha za kundi na kampuni kufikia Desemba 31, 2017, taarifa za pamoja na kando kuhusu fadia na hasara na maelezo mengine ya kina ya mapato, taarifa za pamoja na kando kuhusu mabadiliko ya umiliki wa hisa na taarifa za pamoja na kando kuhusu mtiririko wa pesa kwa kipindi cha mwaka uliomalizika na nukuu kuhusu taarifa za kifedha ukiwemo muhtasari wa sera muhimu za ukaguzi wa pesa na nukuu za maelezo mengine.

Kwa maoni yetu, taarifa zilizojumuishwa pamoja na zile za kando zinatoa taswira halisi na ya hali ya hali ya kifedha iliyowekwa pamoja na kando ya HF Group PLC kufikia Desemba 31, 2017, matokeo mengine ya kifedha yaliyojumuishwa pamoja na kando na pia mtiririko wa kifedha kwa kipindi cha mwaka uliomalizika kwa mujibu wa viwango vya kimataifa vya utoaji wa ripoti za matumizi ya fedha (IFRS) 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 pamoja na kando 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 pamoja na kando 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 na kando ya uhasibu wa fedha wakati wa kipindi hiki. Maswala haya yalijadiliwa kwenye muktadha wa ukaguzi wetu na taarifa ya pamoja na kando za matumizi ya pesa na kwa utoaji wa maoni yetu na kwamba hatutoi maoni mengine tofauti kuhusiana na maswala haya.

<table>
<tr><th colspan="2">Mikopo na arubuni za wateja zinazotiliwa shaka (inaendelezwa)</th></tr>
<tr><td colspan="2">Tazama sera ya uhasibu tanbihi ya 6 (a) (i) – Sera muhimu za uhasibu na nakala za maelezo, kifungu cha 18 – mipango ya ardhi na makazi pamoja na arubuni.</td></tr>
<tr><th>Suala kuu la ukaguzi</th><th>Jinsi suala hilo lilivyoshughulikiwa</th></tr>
<tr><td>Rehani na rubuni za kundi na kampuni zinatekelezwa kwa gharama ya pamoja kwenye taarifa ya pamoja ya matumizi ya pesa na kufanyiwa tathmini ya ulinganifu wakati wa tarehe ya kutoa ripoti.

Makadirio ya hasara ya pesa zinazomilikiwa na mtu binafsi huhitaji wasimamizi kufanya maamuzi ya kubaini iwapo kuna ushahidi halisia Kuhusu utengano na kufanya makisio kuhusu hali ya fedha ya wakopaji na matarajio ya mtiririko wa pesa.</td><td>Kutathmini na kufanyia majaribio muundo na ufaafu wa kuendesha udhibiti wa harakati ya mkopo unaotiliwa shaka – kwa mfano:
• Vidhibiti vya harakati ya mtindo, ikiwemo ufuatiliaji, tathmini ya mara kwa mara na uidhinishaji.
• Vidhibiti kuhusu ukamilifu na usahihi wa ujazaji data kwenye mtindo.
• Vidhibiti kuhusu ubainishaji wa ni ardhi/makazi yepi pamoja na arubuni zipi zilizotiliwa shaka kwa mikopo ya kiwango cha kadri iliyochukuliwa na watu binafsi, hii inajumuisha vidhibiti kuhusu harakati ya uwekaji katika viwango na ufuatiliaji; na
• Harakati ya wasimamizi kuchanganua mahesabu yaliyopigwa.</td></tr>
</table>

Makisio ya utengano yanahusiana na hasara zilizopatikana lakini bado hazijatambuliwa na (makisio ya hasara na IBNR) kuhusiana na mikopo mingine. Maswala ya ukaguzi wa pesa yanahusu udhibiti wa mbinu iliyotumika, uhalisia wa mbinu na makadirio wa mbinu. Mbinu za mipango inahitajika kuangazia maswala ya data fulani zinazojulikana na kuangazia hali ya kiuchumi mwishoni mwa mwaka.	Kutekeleza upya baadhi ya harakati za kutoa mikopo kama ifuatavyo • Kwa mikopo ya kiwango cha kadri isiyolipiwa, kutekeleza tathmini ya mikopo ili kubaini iwapo uwekaji katika viwango ulistahili kisha utathmini busara iliyotumiwa katika kiwango cha fedha zilizotolewa, mbali na kipimo cha muda uliowekwa ili kuzirejesha pesa hizo, ikiwemo thamani halisi ya dhamana. Panapostahili, huwa tunalinganisha masuala yasiyopewa uzito na makadirio yaliyofanywa na usimamizi juu ya habari/ maelezo yaliyopo kutoka nje. • Kutekeleza tathmini ya kifedha kuhusu mikopo inayoendelea kulipiwa ili kubaini iwapo uwekaji wao katika viwango ulikuwa wa kustahili pamoja na kupima usahihi wa data kuu zilizojazwa kwenye mtindo, kutathmini ufaafu wa mbinu ya kupiga mahesabu ya mikopo inayotiliwa shaka na kuzitekeleza upya mbinu kadhaa za upigaji mahesabu. Kutathmini iwapo habari za maelezo zaidi za mahesabu kwenye taarifa za kifedha zinaakisi inavyofaa uelekezaji wa Shirika kwenye hatari ya kifedha.

Fedha za kufidia na matukio ya hasara yasiyotarajiwa kwa mazingatio ya kesi	
Tazama sera ya uhasibu ya 3 (m) – Sera kadhaa za uhasibu na maelezo/taarifa Zaidi kifungu cha 35 – matukio ya hasara yasiyotarajiwa	
Suala kuu la ukaguzi	**Jinsi suala hilo lilivyoshughulikiwa**
Shirika na kundi zinaweza kudai swala ambalo linaweza kuleta athari kwenye matokeo ya kundi na kampuni endapo ufichuzi muhimu ungefanyika. Wakurugenzi wanatoa uamuzi wanapozingatia endapo na kwa uzito gani kutoa fichuzi muhimu kwa kila dai. Tuliangazia eneo hili kwa kuzingatia uzito wake na uamuzi unaofaa kuamua endapo inafaa kutoa, kufichua au kutofichua fichuzi kama hizi.	Kazi yetu ilijumuisha, japo haikufungiwa kwa: • Tathmini ya hatua na udhibiti zilizotumiwa na kundi na kampuni kuhusu madai. Tulifanya majadiliano na kundi la washauri wa kisheria wa ndani ikiwemo baada ya mwaka kuisha na kuhahalisha hali ya hivi punde kabisa, ukaguzi wa fedha na kufichua athari. Pia, tulipata thibitisho kamili kutoka kwa washauri wa kisheria wa nje wa kundi na kampuni kuhusiana na maswala muhimu ya madai kuhakikisha ukamilifu wa kisheria na fichuzi. • Tulitathmini mapendekezo ya kisheria kutoka washauri wa kisheria wa nje kutoa changamoto za msingi uliotumika katika vipengele vilivyorekodiwa au fichuzi zilizofanywa na wakurugenzi. Pale ambapo vipengele havikuhitajika, pia, tulifikiria utoshelevu na ukamilikaji wa fichuzi za kundi na kampuni zilizofanywa kuhusiana na dharura ya madeni.

Mifumo na Vidhibiti vya Teknolojia ya Habari (IT)	
Tulibaini mifumo ya teknolojia ya habari na mawasiliano (IT) ya kundi na mifumo iliyowekwa na vidhibiti huru vya mifumo hiyo kuhusiana na utoaji wa ripoti za kifedha kama eneo linalohitaji kuangaziwa na ambalo linataka juhudi zaidi. Kusudi la kazi hii lilikuwa ni kusaidia uwezo wetu kutegemea vidhibiti kwa madhumuni ya ripoti hii kwa sababu mifumo ya kundi ya utoaji ripoti za uhasibu wa fedha na utoaji ripoti hutegema sana mifumo tata. Hasa, upigaji hesabu, uwekaji rekodi na utoaji taarifa za matumizi ya pesa, salio na marupurupu , mikopo ya awali , uwekezaji kwenye dhamana na akiba ya wateja mara nyingi hutegemea mifumo ya pamoja ya IT. Kuna hatari ya kwamba taratibu za mifumo ya teknolojia ya habari na mawasiliano na vidhibiti vinavyohusiana na uhuru wa teknolojia isiyotumia mifumo hii kutofanyiwa usanifu na kutekeleza wajibu ipasavyo. Eneo mahsusi la kuangaziwa linahusiana na usimamizi wa utoaji idhini ikiwemo idhini ya kufungua na kutumia mitambo kwenye mazingira ya uundaji.	Taratibu zetu za ukaguzi wa pesa eneo hili zilihusu, miongoni mwao; • Kutathmini muundo na kupima uwezo wa udhibiti dhidi ya maadili ya kila mara ya mifumo ya IT ambayo ni muhimu kwa utoaji wa ripoti za ukaguzi wa pesa. • Kupiga msasa mfumo wa utawala dhidi ya muundo wa IT wa kundi, udhibiti na uafikiaji wa mipango ya data , mabadiliko ya mipango , utekelezwaji wa IT na maendeleo ya mipango. • Pale inapohitajika, kufanya majaribio ya moja kwa moja ya aina mbali mbali ya mifumo ya usalama wa teknolojia ya habari na mawasiliano ya kundi ikiwemo usimamizi wa utoaji idhini kutumia mitambo na utoaji wa majukumu.

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 taarifa za pamoja na za kando za matumizi ya 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.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa za Matumizi ya Pesa zilizojumishwa pamoja na zilizotengwa kando

Kama ilivyoelezwa kupitia ukurasa wa 52, 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 p matumizi za pesa zilizojumuishwa pamoja na zile za kando ambazo hazina dosari yoyote iwe ni kutokana na udanganyifu au makosa.

Wakati wa kuandaa taarifa ya matumizi ya pesa za pamoja na kando , 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 zilizojumusihwa pamoja na zilizotengwa kando.

Dhamira yetu ni kupata uhakika halisi kuhusu endapo taarifa za matumizi ya pesa zilizojumuishwa pamoja au kando kwa ujumla hazina upotovu wowote iwe ni kutokana na udanganyifu au makosa na kutoa ripoti ya wakurugenzi inayojumuisha maoni yetu. Uhakika halisi ni hakikisho la 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 udanganyifu 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 zilizojumishwa pamoja na za kando.

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 za pamoja na kando zisizo sahihi za matumizi ya pesa iwe ni kutokana na udanganyifu au makosa , ubunifu na kufanya taratibu 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 visivyo 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 unahitajika lakini 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 zilizojumuishwa pamoja na za kando. Tuna wajibu wa kutoa mwelekeo wa uhasibu kuhusu, ukaguzi na matokeo ya kundi na shirika. Daima tutawajibikia maoni ya uhasibu wetu.

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 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.

Kutokana na maswala yaliyojadiliwa na wakurugenzi, tunatambua maswala hayo yaliyokuwa na umuhimu mkubwa wakati wa ukaguzi wa taarifa za pamoja na zilizotengwa kando kwa kipindi cha hiki ualiyo muhimu kwa maswala ya uhasibu. Tunaelezea maswala haya kupitia ripori yetu ya ukaguzi wa pesa almradi sheria au masharti yaliyowekwa zitakunyima haki ya ufichuzi swala ambalo huwa ni nadra sana kutokea. Tunatambua kwamba swala linafaa kuwasilishwa kupitia ripoti yetu kwa sababu athari zake za kufanya hivyo zinaweza kuwa sawa na kutarajiwa kuzidi matazamio ya umma kuhusiana na mawasiliano kama haya.

.Ripoti kuhusu mahitaji mengine ya kisheria

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

i) Kwa maoni yetu, maelezo yaliyoko kwenye ripoti ya wakurugenzi kupitia ukurasa wa 42 na 43 yana uwiano na taarifa za matumizi ya pesa

ii) Sehemu ya ukaguzi ya ripoti ya marupurupu ya wakurugenzi yaliyoko ukurasa wa 44 na 45 imefanywa kwa mujibu wa sheria za makampuni ya Kenya ya mwaka 2015; na

iii) Tumetoa maoni yetu kuhusu taarifa za pamoja na za kando za matumizi ya pesa za kampuni.

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

KPMG Kenya

Certified Public Accountants,

P.O. Box 40612 - 00100 Nairobi.

Tarehe: 28 Marchi, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Interest income	7	7,132,626	8,607,499
Interest expense	7	(4,156,258)	(4,673,384)
Net interest income		**2,976,368**	**3,934,115**
Impairment losses on mortgage and advances	18(c)	(576,203)	(699,166)
Net interest income after impairment losses on mortgage and advances		**2,400,165**	**3,234,949**
Non-interest income	8	1,346,426	755,549
Non-interest expenses	9	(3,412,196)	(2,642,618)
Share of profit in joint ventures	19(b)	(22,771)	17,773
Profit before taxation	10	**311,624**	**1,365,653**
Income tax expense	11	(185,408)	(459,824)
Net profit after tax for the year		**126,216**	**905,829**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Revaluation surplus	32(c)	189,032	-
Related tax		(9,452)	-
		179,580	-
Change in fair value of available-for-sale investments	32(e)	39,520	(24,167)
Related tax		(11,856)	6,955
		27,664	(17,212)
Total comprehensive income for the year		**336,460**	**888,617**
Basic and diluted earnings per share – KShs.	12	**0.36**	**2.59**
Dividends per share – KShs.	13(a)	**0.35**	**0.50**
Total number of shares		**349,597**	**349,382**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Interest income	7	1,448	351
Interest Income		-	-
Net interest income		**1,448**	**351**
Non-interest income	8	421,282	515,212
Non-interest expenses	9	(238,629)	(289,908)
Profit before taxation	**10**	**184,101**	**225,655**
Income tax expense	11	(412)	-
Profit after tax		**183,689**	**225,655**
Other Comprehensive Income		-	-
Total Comprehensive Income		**183,689**	**225,655**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		2017	2016
ASSETS	**Note**	**KShs'000**	**KShs'000**
Cash and balances with banks	15	4,079,347	5,029,859
Placements with other banks	16	1,492,637	1,616
Investment in government securities	17	2,287,296	4,085,550
Mortgage and advances to customers (Net)	18(a)	49,639,639	54,469,605
Investment in joint ventures	19(b)	1,713,985	1,280,110
Other assets	20	1,487,808	1,504,486
Investment Property	29	748,549	-
Housing development projects	21	2,414,469	2,000,304
Property and equipment	22(a)	1,517,380	1,458,087
Prepaid operating lease rentals	23	44,108	44,751
Intangible assets	24	1,072,387	1,212,626
Tax recoverable	11(b)	204,012	86,911
Deferred tax asset	25(a)	839,499	756,235
TOTAL ASSETS		**67,541,116**	**71,930,140**
LIABILITIES			
Customers' deposits	27	36,744,273	38,707,026
Other liabilities	28	3,259,572	2,136,478
Tax payable	11(b)	3	4
Dividends – payable	13(b)	49,058	60,755
Loans from financial institutions	30(a)	11,541,643	8,571,776
Borrowed funds	30(b)	1,449,663	946,929
Corporate bond	31	3,047,369	10,217,910
		56,091,581	**60,640,878**
SHAREHOLDERS' EQUITY			
Share capital	32	1,747,683	1,746,908
Reserves (Pages 69 & 70)	32	9,651,102	9,491,604
Shareholders' income notes and loans	33	50,750	50,750
		11,449,535	**11,289,262**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**67,541,116**	**71,930,140**

The financial statements set on pages 63 to 133 were approved and authorised for issue by the Board of Directors on 28th March 2018

Frank Ireri: ______________________
Director

Steve Mainda: ______________________
Chairman

Felister Kembi: ______________________
Director

Regina Anyika: ______________________
Company Secretary

The notes set out on pages 73 to 133 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
ASSETS			
Cash and balances with banks	15	28,384	13,423
Investment in subsidiaries	19(a)	9,958,782	9,958,782
Deferred tax asset	25(b)	22	6
Other assets	20	54,542	25,916
Property and equipment	22(b)	572	246
Tax recoverable	11(b)	13,585	1,130
TOTAL ASSETS		**10,055,887**	**9,999,503**
LIABILITIES			
Other liabilities	28	111,156	53,580
Dividends - payable		49,058	60,755
		160,214	**114,335**
SHAREHOLDERS' EQUITY			
Share capital	32	1,747,683	1,746,908
Reserves (Pages 71 - 72)		8,147,990	8,138,259
		9,895,673	**9,885,168**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,055,887**	**9,999,503**

The financial statements set on pages 63 to 133 were approved and authorised for issue by the Board of Directors on 28th March 2018

Frank Ireri: ______________________
Director

Steve Mainda: ______________________
Chairman

Felister Kembi: ______________________
Director

Regina Anyika: ______________________
Company Secretary

The notes set out on pages 73 to 133 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Net cash flows from operating activities	**34(a)**	**5,217,834**	**(4,860,535)**
INVESTING ACTIVITIES			
Purchase of property and equipment	22	(37,593)	(96,734)
Investment in joint ventures	19(b)	(456,646)	(182,124)
Capital work in progress	22	(577)	(172,872)
Proceeds from sale of equipment		-	3,963
Additions to intangible assets	24	(42,160)	(566,062)
Net cash used in investing activities		**(536,976)**	**(1,013,829)**
FINANCING ACTIVITIES			
Receipts and interest expense on borrowed funds	30(c)-31	7,020,052	2,821,096
Payments of borrowed funds	30(c)-31	(10,717,992)	(1,624,856)
Share ownership plan receipts	26	1,550	4,850
Dividend paid	13(b)	(186,434)	(230,041)
Net cash flow from financing activities		**(3,882,824)**	**971,049**
Net decrease in cash and cash equivalents	34(b)	**798,034**	**(4,903,315)**
Cash and cash equivalents as at 1 January		2,864,815	7,768,130
Cash and cash equivalents as at 31 December		**3,662,849**	**2,864,815**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs' 000	2016 KShs' 000
Net cash flows from operating activities	34(c)	**145,816**	**253,915**
INVESTING ACTIVITIES			
Purchase of equipment	22	(380)	(16,392)
Proceeds from sale of equipment		-	14,420
Net cash inflow/(outflow) from investing activities		**(380)**	**(1,972)**
FINANCING ACTIVITIES			
Employee share ownership	26	1,550	-
Dividend paid	13(b)	(186,434)	(230,041)
Net cash inflow from financing activities		**(184,884)**	**(230,041)**
Increase in cash and cash equivalents		**(39,448)**	**21,902**
Cash and cash equivalent at 1 January		67,832	45,930
Change in the year		(39,448)	21,902
Cash and cash equivalent at 31 December	34(d)	**28,384**	**67,832**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

2017:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2017	**1,746,908**	**701,463**	**4,342,137**	**174,691**	**453,487**	**3,895,716**	**(75,890)**	**11,238,512**
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	126,216	-	126,216
Other comprehensive income								
Revaluation surplus	-	189,032	-		-	-	-	189,032
Change in fair value of available-for-sale investment	-	-	-	-	-	-	27,664	27,664
Related tax	-	(9,452)	-	-	-	-	-	(9,452)
Transfer from statutory credit risk reserve	-	-	-	-	187,313	(187,313)	-	-
Total comprehensive Income	**-**	**179,580**	**-**	**-**	**187,313**	**(61,097)**	**27,664**	**333,460**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	775	-	775	-	-	-	-	1,550
Dividend paid – 2016	-	-	-	(174,691)	-	(46)	-	(174,737)
Interim dividend paid - 2017								
Proposed dividends	-	-	-	122,359	-	(122,359)	-	-
Total transactions with owners for the year	**775**		**775**	**(52,332)**	**-**	**(122,405)**		**(173,187)**
Balance as at 31 December 2017	**1,747,683**	**881,043**	**4,342,912**	**122,359**	**640,800**	**3,712,214**	**(48,226)**	**11,398,785**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2016:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'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 73 to 133 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

2017:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2017	**1,746,908**	**-**	**4,342,137**	**174,691**	**-**	**3,621,432**	**-**	**9,885,168**
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	183,689	-	183,689
Total comprehensive income	**-**	**-**	**-**	**-**		**183,689**	**-**	**183,689**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	775	-	775	-	-	-	-	1,550
Dividend paid – 2016	-	-	-	(174,691)	-	(42)	-	(174,733)
Interim dividend paid - 2017								
Proposed dividends	-	-	-	122,359	-	(122,359)	-	-
Total transactions with owners for the year	**775**	**-**	**775**	**(52,332)**	**-**	**(122,401)**	**-**	**(173,183)**
Balance as at 31 December 2017	**1,747,683**	**-**	**4,342,912**	**122,359**	**-**	**3,682,720**	**-**	**9,895,674**

The notes set out on pages 73 to 133 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2016:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'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 73 to 133 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. REPORTING ENTITY

HF Group PLC (Formerly 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 2. The consolidated financial statements comprise of the Company and its subsidiaries (together referred to as the "Group" or "Consolidated" and individually reffered to 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015.

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

(b) Basis of measurement

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

- Note 17 - on available-for-sale financial assets that are measured at fair value;
- Note 22 - on land and buildings that are measured at revalued amounts.

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs.), which is the Company'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 (KShs. '000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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.

(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. Unrealised 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.

(iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition

(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.

Other fees and commission income, including account servicing fees, are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and services fees, which are expensed as the services are received.

Rental income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) Investment property

Investment property comprises land, buildings and equipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation and are initially recorded at cost, including transaction costs on development. Additional expenditure on investment properties is capitalised when it is probable that the future economic benefits will flow to the Company. All other subsequent expenditure on the properties is expensed in the period in which it is incurred. Investment property held to earn rental income and for capital appreciation and not occupied by the company is classified as investment property.

(i) Depreciation

Buildings on leasehold land are depreciated over the shorter of 50 years and the remaining period of the lease. Buildings on freehold land are depreciated over fifty years.

Depreciation method, useful lives and residual values are reassessed at the reporting date.

(ii) 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

(g) 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(k) Financial assets and liabilities
(i) Recognition

The Group initially recognises mortgages 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 amortised 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.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised 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 Company 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. Mortgages and advances are subsequently measured at their amortised cost using the effective interest method. Mortgages and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(k) Financial assets and liabilities (continued)
(ii) Classification (Continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets and liabilities (continued)

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

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 mortgages 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets and liabilities (continued)

(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.

(l) 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.

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.

(m) 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.

(n) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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.

(q) 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.

(r) New standards, amendments and interpretations

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

During the year Group has adopted all the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Group's accounting policies. These standards are as shown below.

New standard or amendments
• Disclosure Initiative (Amendments to IAS 7)
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
• Annual improvements cycle (2014-2016) – (Amendments to IFRS 12 Disclosure of Interest in Other Entities)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been early adopted by the Company. The Company is in the process of assessing the impact of these standards on the financial statements.

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 9 Financial Instruments (2014)	1st January 2018
• IFRS 15 Revenue from Contracts with Customers	1st January 2018
• Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)	1st January 2018
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1st January 2018
• IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1st January 2018
• IFRS 16 Leases	1st January 2019
• IFRIC 23 Income tax exposures	1st January 2019
• IFRS 17 Insurance Contracts	1st January 2021
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS10 and IAS 28)	To be determined
• Transfers of Investment Property (Amendments to IAS 40)	1st January 2018
• Annual improvements cycle (2014-2016) – (Amendments to IFRS 1 First time adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)	1st January 2018
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1st January 2019
• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1st January 2019

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted - continued

IFRS 9: Financial Instruments (2014) - continued

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to statutory reserves as at 1 January 2018 of approximately KShs. 232 million. Additionally, the adoption of IFRS 9 is expected to impact Capital Adequacy Ratios of the Group from the current 16.90% to about 16.60%. We will continue to monitor and refine certain elements of our impairment process in advance of quarter 1 2018 reporting.

IFRS 15 Revenue from Contracts with Customers (Effective 31 December 2018)

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, principles 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 adoption of IFRS 15 is not expected to have a significant impact on the Group.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases which 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted - continued

IFRS 16: Leases (Continued)

The Company is assessing the potential impact on its financial statements resulting from the application of this standard.

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 is 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 Company is assessing the potential impact on its financial statements resulting from the application of IFRS 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(r) New standards, amendments and interpretations (continued)
(ii) New and amended standards and interpretations in issue but 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;
- 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.

The adoption of these changes is not expected to have a significant impact on the financial statements the Group since they do not issue insurance contracts within the scope of IFRS 4.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or

(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes will not have a significant impact on the amounts and disclosures of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted - continued

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;

(b) reinsurance contracts it holds; and

(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

The adoption of the standard will not have an impact on the financial statements of the Group since they do not issue insurance contracts within the scope of IFRS 4 or IFRS 9.

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 adoption of these changes are not expected to have a significant impact on the financial statements of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted - continued

Transfers of Investment Property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use.

A change in management intention alone does not support a transfer.

The amendments apply for annual periods beginning on or after 1 January 2018. Early adoption is permitted. A company has a choice on transition to apply:

- the prospective approach – i.e. apply the amendments to transfers that occur after the date of initial application – and also reassess the classification of property assets held at that date; or
- the retrospective approach – i.e. apply the amendments retrospectively, but only if it does not involve the use of hindsight.

The Group has an investment property in HF Development and Investments Ltd (HFDI) and is assessing the impact of IAS 40 on its financial statements.

Annual improvements cycle (2014-2016) – (Amendments to IFRS 1 First time adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)

Standard	Amendments
IFRS 1 First-time Adoption of IFRS	Outdated exemptions for first-time adopters of IFRS are removed effective for annual periods beginning on or after 1 January 2018. The adoption of these changes will not have an impact on the financial statements of the Group since the Group is not a first time adopter of IFRS.
IAS 28 Investments in Associates and Joint Ventures	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The adoption of these changes is not expected to have an impact on the financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment removes the word 'additional' so that negative compensation may be regarded as 'reasonable compensation' irrespective of the cause of the early termination. Financial assets with these prepayment features can therefore be measured at amortised cost or at FVOCI if they meet the other relevant requirements of IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(r) New standards, amendments and interpretations (continued)
(ii) New and amended standards and interpretations in issue but not yet adopted - continued
Prepayment Features with Negative Compensation (Amendments to IFRS 9) - continued

The amendment is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs. The adoption of these changes is not expected to have a significant impact on the financial statements of the Group since it does not have prepayment features with negative compensation.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). This is common in the extractive and real estate sectors.

The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group did not early adopt new or amended standards not yet effective in the year ended 31 December 2017.

4. FINANCIAL RISK MANAGEMENT
Principles

HF Group PLC (Formerly 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 recognised early on and mitigated by effective risk management. Successful risk management is recognised 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 Central Bank of Kenya 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 organisational 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)

- 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.
- 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. The Group is mainly exposed to these risks through the banking subsidiary, HFC Limited.

(a) Credit risk

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 the Group or if an obligor otherwise fails to perform as agreed.

Management of credit risk

The Group is subject to credit risk through its lending and investing activities.

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

Credit risk is the Group'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 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 the Group and approves the credit risk strategies to be adopted.

The Group 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(a) Credit risk (continued)
Management of 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.

The Group's primary exposure to credit risk arises through its mortgage 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. The Group 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, the Group deals with counterparties of good credit standings and obtain collateral.

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

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

Past due but not impaired mortgages 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 the Group 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 the Group is adequate. Any amounts past due for more than three months are considered impaired.

Mortgages 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 the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category until satisfactory performance after restructuring.

Allowances for impairment
The Group 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
The Group writes off a loan/security balance (and any related allowances for impairment losses) when the Group 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 position such 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (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	
	2017	2016	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Impaired mortgage and advances	8,212,167	6,193,462	-	-	-	-
Gross amount allowance for impairment	(2,846,406)	(2,421,649)	-	-	-	-
Carrying amount	**5,365,761**	**3,771,813**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	44,396,018	50,821,284	2,287,296	4,085,550	1,492,637	1,616
Allowance for impairment incurred but not reported	(122,140)	(123,492)	-	-	-	-
Carrying amount	**44,451,894**	**50,697,792**	**2,287,296**	**4,085,550**	**1,492,637**	**1,616**
Net carrying amount	**49,639,639**	**54,469,605**	**2,287,296**	**4,085,550**	**1,492,637**	**1,616**

In addition to the above, the Group has entered into lending commitments of KShs. 4,942,993,944 (2016 – KShs. 6,434,128,319) 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 Ltd holds collateral against mortgage 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(a) Credit risk (continued)

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

	2017	2016
	KShs'000	KShs'000
Against impaired accounts	13,189,667	10,432,080
Against accounts not impaired	152,152,075	178,162,617
	165,341,742	**188,594,697**

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

	2017	2016
	KShs'000	KShs'000
Properties	165,165,066	188,541,267
Secured by Cash	176,676	53,430
	165,341,742	**188,594,697**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk(continued)

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:

	2017	2016
At 31 December	20.70%	21.05%
Average for the year	21.38%	20.48%
Maximum for the year	28.72%	26.85%
Minimum for the year	14.18%	16.36%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(b) Liquidity risk (continued)

Exposure to liquidity risk - continued

Contractual maturity analysis of financial assets and liabilities

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

	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
31 December 2017:	**KShs'000**	**KShs '000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Financial assets						
Cash balances	2,170,212	-	-	-	1,909,135	4,079,347
Placements with other banks	1,492,637	-	-	-	-	1,492,637
Investment in Government securities	-	164,735	282,933	309,384	1,530,244	2,287,296
Net loan and advances to customers	190,656	2,794,085	7,657,583	5,724,777	33,272,538	49,639,639
Total	**3,853,505**	**2,958,820**	**7,940,516**	**6,034,161**	**36,711,917**	**57,498,919**
Financial liabilities						
Customer deposits	5,470,944	17,076,969	4,754,294	150,819	9,291,247	36,744,273
Loans and borrowings	60,812	873,568	2,678,873	7,012,794	2,365,259	12,991,306
Corporate bond	-	-	-	3,047,369	-	3,047,369
Government income notes	-	-	-	-	50,750	50,750
Total	**5,531,756**	**17,950,537**	**7,433,167**	**10,210,982**	**11,707,256**	**52,833,699**
Guarantees	138,720	-	10,961	92,264	31,600	273,545
Unrecognised Loan commitments	-	1,889,776	3,053,218	-	-	4,942,994
	138,720	**1,889,776**	**3,064,179**	**92,264**	**31,600**	**5,216,539**
At 31 December 2017	**(1,816,971)**	**(16,881,493)**	**(2,556,830)**	**(4,269,085)**	**24,973,061**	**(551,319)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(b) Liquidity risk (continued)
Exposure to liquidity risk - continued

31 December 2016:	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash balances	3,051,123	-	-	-	1,978,656	5,029,779
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**	**63,586,550**
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)**

(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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (continued)

Exposure to interest risk - continued

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:

	Average interest rate	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
31 December 2017:		KShs'000	KShs '000	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets							
Cash balances	0.00%	2,170,212	-	-	-	1,909,135	4,079,347
Placements with other banks	7.62%	1,492,637	-	-	-	-	1,492,637
Investment in Government securities	11.92%	-	164,735	282,933	309,384	1,530,244	2,287,296
Net mortgage and advances to customers	12.10%	190,656	2,794,085	7,657,583	5,724,777	33,272,538	49,639,639
Total		**8,583,049**	**2,958,820**	**7,940,516**	**6,034,161**	**36,711,911**	**57,498,919**
Financial liabilities							
Customer deposits	7.51%	5,470,944	17,076,969	4,754,294	150,819	9,291,247	36,744,273
Loans and borrowings	6.54%	60,812	873,568	2,678,873	7,012,794	2,365,259	12,991,306
Corporate bond	13.00%	-	-	-	3,047,369	-	3,047,369
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**5,531,756**	**17,950,537**	**7,433,167**	**10,210,982**	**11,707,256**	**52,833,699**
Guarantees		138,720	-	10,961	92,264	31,600	273,545
Unrecognised Loans commitments		-	1,889,776	3,053,218	-	-	4,942,994
At 31 December 2017		**92,164**	**(16,881,493)**	**(2,556,830)**	**(4,269,085)**	**23,063,926**	**(551,319)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (continued)

31 December 2016:	Average interest rate	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'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 mortgage and advances to customers	13.9%	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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (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 and liabilities denominated in US Dollars and was as follows as at 31st December:

All figures are in Kenya shillings (KShs'000')

USD	2017	2016
Cash and balances with banks	4,092,814	1,183,603
Mortgages and advances	5,720,376	5,791,673
Borrowings	(8,956,599)	(6,466,182)
Net statement of financial position exposure	**856,591**	**509,094**

All figures are in Kenya shillings (KShs'000')

EUR	2017	2016
Cash in bank	14,286	24,599
Mortgages and advances	-	18,613
Net statement of financial position exposure	**14,286**	**43,212**

All figures are in Kenya shillings (KShs'000')

GBP	2017	2016
Cash in bank	17,284	8,460
Mortgages and advances	70,409	63,862
Net statement of financial position exposure	**87,693**	**72,322**

The following significant exchange rate applied during the period:

	Average rates	Closing rates
	2017	**2017**
US Dollar	102.45	103.18
EUR	114.72	123.77
GBP	135.55	139.47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (continued)
(i) Foreign exchange risk

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

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 strengthening of the Kenya Shilling against the US Dollar at 31 December 2017 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, remain constant.

A 10 percent weakening of the Kenya Shilling against the US Dollar at 31 December 2017 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.

	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2017				
USD 10% Movement	(85,659)	85,659	(85,659)	85,659
EUR 10% Movement	(1,429)	1,429	(1,429)	1,429
GBP 10% Movement	(8,770)	8,770	(8,770)	8,770

	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

(ii) Other price risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (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 PLC (Formerly 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 unrealised 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (continued)

The regulatory capital position for the Group as at 31 December 2017 was as follows:

	2017	2016
	KShs'000	KShs'000
Tier 1 capital		
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	600,656	757,069
Deferred tax	(816,436)	(751,370)
Total tier 1 capital	**8,297,882**	**8,519,361**
Tier 2 capital		
Collective allowances for impairment	640,800	453,487
Qualifying subordinated liabilities	170,602	606,981
Total tier 2 capital	**811,402**	**1,060,468**
Total regulatory capital	**9,109,284**	**9,579,829**
Risk weighted assets	**53,575,584**	**54,161,661**
Capital ratios	**2017**	**2016**
Total regulatory capital expressed as a percentage of total risk-weighted assets	17.00%	17.7%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	15.49%	15.7%

Central Bank of Kenya required HFC Limited to maintain a minimum core capital of KShs. 1 billion as at 31 December 2017.

HFC Limited is already compliant with this requirement.

5. OPERATING SEGMENTS

Operating segments defined at HF Group PLC are organised in four main reporting segments. The segmentation is based on the Group's management and internal reporting structure.

The following summary describes the operations of each of the Group's reportable segment;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. OPERATING SEGMENTS (Continued)

- **Retail banking:** 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 the Group. The segment is also responsible for the sourcing of deposits from retail customers which are then used to finance the Group's loan products.

- **Corporate banking:** This segment is responsible for sourcing for deposits from corporate organizations. It is also incharge of projects, providing lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.

- **Property Development:** This function is undertaken by one of the Group's subsidiaries, HF Development and Investments Limited and its core business is the development of housing projects and the sale of houses thereof.

- **Bancassuarance:** The bancassurance function is based at the HF Insurance Agency Limited and the business is procuring insurance business and earning commissions thereof.

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 Group's executive committee.

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. OPERATING SEGMENTS (Continued)

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Totals	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	3,572,135	5,811,297	3,560,492	2,795,828	-	-	-	-	7,132,626	8,607,125
Interest expense:	(1,986,242)	(3,182,997)	(2,088,110)	(1,460,757)	-	-	-	-	(4,074,352)	(4,643,754)
Net interest income	**1,585,893**	**2,628,299**	**1,472,382**	**1,335,071**	**-**	**-**	**-**	**-**	**3,058,274**	**3,963,370**
Non interest income	257,768	291,988	26,088	68,122	-	-	-	-	283,857	360,110
House sale income	-	-	-	-	886,181	287,925	-	-	886,181	287,925
Insurance commissions	-	-	-	-	-	-	54,938	53,629	54,938	53,629
Depreciation and amortisation	(205,176)	(253,979)	(144,280)	(70,020)	(568)	(436)	(205)	(195)	(350,228)	(324,630)
Reporting segment profit/(loss) before income tax	51,990	725,857	340,976	738,430	(55,467)	(40,064)	16,946	20,406	354,445	1,444,630
Loan disbursements	3,552,540	4,002,882	3,581,341	9,262,600	-	-	-	-	7,133,880	13,265,482
Loan sales	777,394	3,633,531	2,566,287	10,330,451	-	-	-	-	3,343,682	13,963,981
Deposits balances	15,549,809	19,892,197	21,276,553	18,422,437	-	-	-	-	36,826,362	38,314,634
Other material non cash items									**-**	**-**
Impairment losses on mortgage loans	(347,995)	(518,847)	(228,208)	(180,319)	-	-	-	-	(576,203)	(699,166)
Capital expenditure	1,601	94,522	1,684	78,048					3,285	172,570
Reportable segment assets	28,373,874	46,090,732	33,755,585	22,794,315	5,035,382	3,346,930	63,485	35,166	67,228,327	72,267,143
Reportable segment liabilities	**21,525,868**	**34,161,602**	**30,687,976**	**24,999,225**	**3,979,196**	**2,267,493**	**21,798**	**4,819**	**56,214,839**	**61,433,139**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. OPERATING SEGMENTS (Continued)

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

	2017	2016
	KShs'000	KShs'000
Net interest income		
Total net interest income for reportable segments	3,058,274	3,963,371
Other interest income adjustments	(81,906)	(29,256)
Consolidated net interest income	**2,976,368**	**3,934,115**
Non interest income		
Total non interest income for reportable segments	1,224,976	701,664
Other non interest income	121,450	395,439
Consolidated non interest income	**1,346,426**	**755,549**
Profit or loss		
Total profit or loss for reportable segments	354,445	1,444,630
Other profit or loss	(42,821)	(78,977)
Consolidated profit before income tax	**311,624**	**1,365,653**
Assets		
Total assets for reportable segments	67,228,327	72,267,143
Other assets	312,789	(337,003)
Consolidated total assets	**67,541,116**	**71,930,140**
Liabilities		
Total liabilities for reportable segments	56,214,839	60,522,688
Other liabilities	(123,258)	(792,259)
Consolidated total liabilities	**56,091,581**	**60,640,880**

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(k).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Allowances for credit losses - continued

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

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.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of mortgages and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired mortgages 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.

(b) Critical judgements in applying the entity's accounting policies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7. INTEREST INCOME AND INTEREST EXPENSE

Interest Income	2017		2016	
Arising from:	Company KShs'000	Group KShs'000	Company KShs'000	Group KShs'000
Advances to customers	-	6,713,482	-	7,889,838
Treasury Bonds	-	314,112	-	503,578
Placements with other banks	1,448	105,032	351	214,083
	1,448	**7,132,626**	**351**	**8,607,499**

Included in interest income on loan and advances for the year is a total of KShs. 883,442,123 (2016 – KShs. 671,950,810) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are available for sale and Held to maturity.

Interest expense *Arising from:*	2017		2016	
	Company KShs'000	Group KShs'000	Company KShs'000	Group KShs'000
Customer Deposits	-	2,319,726	-	2,939,419
Interest on borrowed funds	-	1,836,532	-	1,733,964
	-	**4,156,258**	**-**	**4,673,384**

8. NON INTEREST INCOME

Fees and Commission income	-	200,480	-	321,233
Rental Income	-	43,141	-	50,066
House sale Income	-	886,181	-	287,925
Other operating income	421,282	216,742	515,212	92,362
Gain/(loss) on sale of equipment	-	(118)	-	3,963
	421,282	1,346,426	515,212	755,549

9. NON INTEREST EXPENSES

Arising from:				
Salaries and employee benefits	146,720	1,088,000	173,644	1,071,977
Rental Expenses	-	110,467	-	35,863
Deposit Protection Fund	-	54,703	-	65,685
Cost of sold houses	-	803,487	-	210,057
General Administration Expenses	91,909	1,355,539	116,264	1,259,036
	238,629	**3,412,196**	**289,908**	**2,642,618**

The following items are included with salaries and employee benefits:

	2017	**2016**
Number of employees in the Group	403	479
Compulsory social welfare contributions (KShs. '000)	1,268	1,139
Contributions to the defined contribution retirement scheme (KShs. '000)	80,550	62,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

10. PROFIT BEFORE TAXATION

The profit before taxation is arrived at after charging/(crediting):

	2017 KShs '000	2016 KShs '000
Directors' remuneration:		
Group consolidated:		
- Fees	8,772	8,062
- Expenses	7,100	5,060
- As executives	64,413	64,097
Company:		
- Fees	5,668	1,378
- As executives	64,413	64,097
Auditor's remuneration	12,808	12,585
Amortisation of prepaid operating lease rentals	643	645
Amortisation of intangible assets	182,398	172,582
Depreciation	167,792	153,449
Loss/(Gain) on sale of property and equipment	115	(3,962)

11. TAXATION

(a) Income tax expense

	Group 2017 KShs'000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Current tax at 30% - Current year	289,980	632,796	428	7
Deferred tax (Note 25(a) - Current year	(111,432)	(172,972)	(16)	(8)
- Prior year	6,860	-	-	1
	185,408	459,824	412	-

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

	Group 2017 KShs'000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Accounting profit before taxation	311,443	1,365,653	184,101	225,656
Tax at the applicable tax rate of 30%	93,433	409,696	55,230	67,697
Tax effect of non-deductible costs	91,975	55,460	54,818	67,697
Tax effect of share of profit in joint ventures	-	(5,332)	-	-
	185,408	459,824	412	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11. TAXATION(Continued)
(b) Taxation recoverable/(payable)

	Group		Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	86,907	(96,647)	1,130	(63,354)
Paid during the year/period	407,082	816,350	12,867	64,484
Charge for the year/period	(289,980)	(632,796)	(412)	-
At 31 December	**204,009**	**86,907**	**13,585**	**1,130**
The following amounts are shown in the balance sheet:				
Taxation recoverable	**204,012**	**86,911**	**13,585**	**1,130**
Taxation payable	(3)	(4)	-	-

12. EARNINGS PER SHARE
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:

	2017	2016
	KShs'000	KShs'000
Net profit for the year attributable to shareholders	**126,216**	**905,828**
Number of ordinary shares in issue (000's)	**349,597**	**349,382**
Weighted average number of ordinary shares	**349,597**	**349,382**
Basic earnings per share	**0.36**	**2.59**

13. DIVIDEND PER SHARE
(a) Proposed dividends
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 2017 of KShs. 0.35 per share (2016 - KShs. 0.50) amounting to a total of KShs. 122,358,833 (2016 - KShs. 174,733,334) has been proposed. During the year an interim dividend of KShs. Nil per share (2016 – KShs. Nil), amounting to a total of KShs. Nil was paid (2016 – KShs. Nil). The total dividend for the year is therefore KShs. 0.35 per share (2016 - KShs. 0.50), amounting to a total of KShs. 122,358,833 (2016 - KShs. 174,733,334). Issued and fully paid ordinary shares were 349,596,667 as at 31 December 2017 (2016 – 349,381,667).

(b) Reconciliation of dividends payables

	2017	2016
	KShs'000	KShs'000
Unpaid Dividends as at 1 January	60,755	63,949
Proposed dividends (prior year)	174,691	226,783
Transfer from retained earnings	46	63
Dividends paid during the year	(186,434)	(230,040)
Balance as at 31 December	49,058	60,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

31 December 2017:	Held-to-maturity KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets			
Cash and balances with banks	-	4,079,347	4,079,347
Placements with banks	-	1,492,637	1,492,637
Investment in government securities	776,014	1,511,282	2,287,296
Mortgages and advances	-	49,639,639	49,639,639
	776,014	**56,722,905**	**57,498,919**
Financial Liabilities			
Customer deposits	-	36,744,273	36,744,273
Corporate bond	-	3,047,369	3,047,369
Borrowings – borrowed funds	-	1,449,663	1,449,663
Borrowings – banks/financial institutions	-	11,541,643	11,541,643
	-	**52,782,948**	**52,782,948**
31 December 2016:			
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
Mortgages 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**

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 mortgages and advances has not been disclosed as this cannot be determined reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

(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.

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 2017:

Group 31 December 2017:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial Assets				
Investment in government securities	-	2,287,296	-	2,287,296
Mortgages and advances to cutomers	-	-	49,639,639	49,639,639
	-	**2,287,296**	**49,639,639**	**51,926,935**
Financial Liabilities				
Customer deposits	-	-	36,744,273	36,744,273
Corporate bond	-	3,047,369	-	3,047,369
Borrowings	-	-	12,991,306	12,991,306
	-	**3,047,369**	**49,735,579**	**52,782,948**

Group 31 December 2016:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial Assets				
Investment in government securities	-	4,085,550	-	4,085,550
Mortgages and advances to cutomers	-	-	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
Borrowings	-	-	9,518,705	9,518,705
	-	**10,217,910**	**48,225,731**	**58,443,641**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15. CASH AND BALANCES WITH BANKS

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cash at hand	447,263	-	477,117	-
Balances with commercial banks	808,625	28,384	1,122,791	13,423
Balances with Central Bank of Kenya:				
- Unrestricted	914,324	-	1,263,291	-
- Restricted (Cash Reserve Ratio)	1,909,135	-	2,166,660	-
	4,079,347	**28,384**	**5,029,859**	**13,423**

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 2017, the Cash Reserve Ratio was 5.25% (2016 – 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

	Group	
	2017 KShs'000	2016 KShs'000
Placements with commercial banks	**1,492,637**	**1,616**

17. INVESTMENT IN GOVERNMENT SECURITIES

	Group	
	2017 KShs'000	2016 KShs'000
Held to maturity		
Treasury bonds due after 180 days	776,014	4,376,174
Available-for-sale		
Treasury bonds classified as available-for-sale	1,511,282	509,493
Central Bank of Kenya Reverse Repo	-	(800,117)
	2,287,296	**4,085,550**

The weighted average effective interest rate on government securities as at 31 December 2017 was 11.92% (2016 – 11.65%).

18. MORTGAGE AND ADVANCES TO CUSTOMERS

	Group	
	2017	2016
Mortgages and advances at amortised cost	**KShs'000**	**KShs'000**
Mortgages and advances	52,608,185	57,014,746
Less: Provision for impairment losses (Note 18(b))	(2,968,546)	(2,545,141)
	49,639,639	**54,469,605**
Maturing:		
Within five years	15,967,839	18,272,571
Over five years to ten years	12,399,813	15,266,072
Over ten years to fifteen years	16,202,384	17,077,380
Over fifteen years	8,038,149	6,398,723
	52,608,185	**57,014,746**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

18. MORTGAGE AND ADVANCES TO CUSTOMERS (Continued)

(b) Reserve for impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2016	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**
Impairment made in the year	1,098,622	-	1,098,622
Provisions no longer required	(521,067)	(1,352)	(522,419)
Written off against balance	(152,798)	-	(152,798)
At 31 December 2017	**2,846,406**	**122,140**	**2,968,546**

(c) Impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
2017			
Impairment made in the year`	1,098,622	-	1,098,622
Provisions no longer required	(521,067)	(1,352)	(522,419)
At 31 December 2017	**577,555**	**(1,352)**	**576,203**
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**

(d) Mortgages and advances

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

	2017 KShs'000	2016 KShs'000
Interest on impaired mortgages and advances which have not yet been received in cash	**1,249,714**	**736,776**

The weighted average effective interest rate on loans advances to customers as at 31 December 2017 was 12.42% (2016 – 13.69%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

	Shareholding	Company 2017 KShs'000	Company 2016 KShs'000
(a) Subsidiaries			
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			
Kahawa Downs Limited	50%	168,208	144,177
Precious Heights Limited	50%	106,289	111,354
Richland Development Limited	50%	167,752	168,651
Claycity Limited	50%	489,472	33,090
Theta Dam Estate Limited	50%	805,035	805,035
		1,736,756	**1,262,337**
Group share of profit/(loss) in joint venture			
Kahawa Downs Limited	50%	(8,403)	24,031
Precious Heights Limited	50%	(11,515)	(5,095)
Richland Development Limited	50%	(2,809)	(899)
Claycity Limited	50%	(44)	(264)
Theta Dam Estate Limited	50%	-	-
		(22,771)	**17,773**
Net investment in joint venture		**1,713,985**	**1,280,110**

The Group has entered into 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 Limited; 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 are being 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (CONTINUED)

Group 2017

	Kahawa Development Limited	Precious Heights Limited	Richland Development Limited	Claycity Limited	Theta Dam Estate Limited	Total
Revenue	114,660	23,535	-	563	-	**138,757**
Operating costs	(146,250)	(52,389)	(5,617)	(651)	-	**(204,908)**
Income tax expense	14,784	5,824	-	-	-	**20,608**
Profit/(loss) and other Comprehensive income	**(16,806)**	**(23,030)**	**(5,617)**	**(89)**	**-**	**(45,543)**
Group share of net profit/(loss) (50%)	**(8,403)**	**(11,515)**	**(2,809)**	**(44)**	**-**	**(22,771)**
Current assets	557,611	291,286	644,768	1,506,313	1,913,117	**4,913,095**
Current liabilities	(238,001)	(101,736)	(316,384)	(36,930)	-	**(693,051)**
Net assets	**319,610**	**189,550**	**328,384**	**1,469,382**	**1,913,117**	**4,220,044**
Groups share of net assets (50%)	159,805	94,775	164,192	734,691	956,559	**2,110,022**
Group's interest in net assets at the beginning of the year	168,208	106,289	167,752	32,826	805,035	**1,280,110**
Addittions during the year	-	-	-	456,646	-	**456,646**
Closing Group Interest	**168,208**	**106,289**	**167,752**	**489,472**	**805,035**	**1,736,756**
Share of total comprehensive income	(8,403)	(11,515)	(2,809)	(44)	-	**(22,771)**
Carrying amount of interest in investee at end of the year	**159,805**	**94,774**	**164,943**	**489,428**	**805,035**	**1,713,985**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (CONTINUED)

Group 2016

	Kahawa Development Limited	Precious Heights Limited	Richland Development Limited	Claycity Limited	Theta Dam Estate Limited	Total
Revenue	500,121	58,209	102	78	-	**558,510**
Operating costs	(431,511)	(68,399)	(1,900)	(607)	-	**(502,417)**
Income tax expense	(20,548)	-	-	-	-	**(20,548)**
Profit/(loss) and other Comprehensive income	**48,062**	**(10,190)**	**(1,798)**	**(529)**	**-**	**35,545**
Group share of net profit/(loss) (50%)	**24,031**	**(5,095)**	**(899)**	**(264)**	**-**	**17,773**
Current assets	831,966	372,787	455,637	71,620	1,913,117	**3,645,127**
Current liabilities	(495,550)	(160,209)	(120,133)	(5,969)	-	**(781,861)**
Net assets	**336,416**	**212,578**	**335,504**	**65,651**	**1,913,117**	**2,863,266**
Groups share of net assets (50%)	168,208	106,289	167,752	32,826	956,559	**1,431,633**
Group's interest in net assets at the beginning of the year	144,177	111,384	168,651	33,090	805,035	**1,262,337**
Share of total comprehensive income	24,031	(5,095)	(899)	(264)	-	**17,773**
Carrying amount of interest in investee at end of the year	**168,208**	**106,289**	**167,752**	**32,826**	**805,035**	**1,280,110**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

20. OTHER ASSETS

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	136,621	-	138,715	-
Prepayments	259,979	727	321,658	-
Deposits and rent receivable	51,599	-	51,057	-
House sales debtors	434,414	-	749,163	-
Other receivables	605,195	53,815	243,893	25,916
	1,487,808	54,542	1,504,486	25,916

Included in staff debtors are staff car loans of KShs. 13,540,722 (2016 – KShs. 15,973,214) and staff personal loans of KShs. 121,988,227 (2016 – KShs. 123,041,577).

21. HOUSING DEVELOPMENT PROJECTS

	2017 KShs'000	2016 KShs'000
Group:		
Housing projects		
Housing Projects	2,414,469	2,000,304

There were no commitments in respect of these projects authorised in 2017 (2016 - Nil).

22. PROPERTY AND EQUIPMENT

Group 2017:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2017	52,000	655,184	1,217,598	14,652	1,939,434
Additions	-	-	37,593	577	38,170
Disposals	-	-	(243)	-	(243)
Transfers	-	-	11,945	(11,945)	-
Revaluation	10,000	150,000	-	-	160,000
At 31 December 2017	**62,000**	**805,184**	**1,266,893**	**3,284**	**2,137,361**
Comprising:					
At cost	-	20,651	1,266,893	3,284	1,290,828
At valuation	62,000	784,533	-	-	846,533
	62,000	**805,184**	**1,266,893**	**3,284**	**2,137,361**
Depreciation:					
At 1 January 2017	-	54,968	426,379	-	481,347
Charge for the year	-	10,077	157,714	-	167,792
Disposals	-	-	(125)	-	(125)
Revaluation	-	(29,032)	-	-	(29,032)
At 31 December 2017	-	36,013	583,968	-	619,982
Net book value:					
At 31 December 2017	**62,000**	**769,171**	**682,925**	**3,284**	**1,517,380**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

22. PROPERTY AND EQUIPMENT (Continued)
(a) Group (continued)

2016:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'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**

The Group's land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2017. The resulting surplus was credited to revaluation reserve.

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

	2017 KShs 000	2016 KShs '000
Freehold land	206	206
Buildings	3,624	4,037

Included in equipment are assets with a gross value of KShs. 176,958,382 (2016 – KShs. 197,131,304) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs. 28,015,996 (2016 – KShs. 51,926,847). Revaluation of the Group's assets is done after every 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

22. PROPERTY AND EQUIPMENT (Continued)
(b) Company

2017:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2017	-	-	278	-	278
Additions	-	-	380	-	380
Revaluation					
Disposals	-	-	-	-	-
At 31 December 2017	**-**	**-**	**658**	**-**	**658**
Depreciation:					
At 1 January 2017	-	-	32	-	32
Charge for the year	-	-	53	-	53
Disposals	-	-	-	-	-
At 31 December 2017	-	-	85	-	85
Net book value:					
At 31 December 2017	**-**	**-**	**572**	**-**	**572**
2016:					
Cost or valuation:					
At 1 January 2016	-	-	210	-	210
Additions	-	-	16,392	-	16,392
Revaluation	-	-	-	-	-
Disposals	-	-	(14,420)	-	(14,420)
At 31 December 2016	**-**	**-**	**2,182**	**-**	**2,182**
Depreciation:					
At 1 January 2016	-	-	7	-	7
Charge for the year	-	-	1,929	-	1,929
Disposals	-	-	-	-	
At 31 December 2016	-	-	1,936	-	1,936
Net book value:					
At 31 December 2016	**-**	**-**	**246**	**-**	**246**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

23. PREPAID OPERATING LEASE RENTALS

	Group		Company	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cost:				
At 1 January and 31 December	54,612	54,612	-	-
Additions	-	-	-	-
At 31 December 2017	54,612	54,612	-	-
Amortisation:				
At 1 January	9,861	9,216	-	-
Charge for the year	643	645	-	-
As at 31 December	10,504	9,861	-	-
At 31 December	**44,108**	**44,751**	**-**	**-**

As at 31 December 2017 the un-expired lease period ranges from 59 to 84 years. Leasehold land is recognised at cost. The Group's leasehold land was valued professionally on 31 December 2017 at KShs. 512,000,000.

24. INTANGIBLE ASSETS

	Group		Company	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cost:				
At January	1,548,411	982,349	-	-
Additions during the year	42,160	566,062	-	-
As at 31 December	1,590,571	1,548,411	-	-
Amortisation:				
At January	335,786	163,202	-	-
Amortisation during the year	182,398	172,583	-	-
As at 31 December	518,184	335,785	-	-
Net book value:				
As at 31 December	**1,072,387**	**1,212,626**	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

25. DEFERRED TAX ASSETS/(LIABILITIES)

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

(a) Group

2017:	01.01.2017 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognised in other comprehensive income KShs'000	31.12.2017 KShs'000
Arising from:					
Property and equipment	(21,379)	(9,419)	(84,107)	-	(114,905)
Revaluation surplus	(36,924)	-	-	(9,452)	(46,376)
AFS Fair value reserves	32,106	-	-	(11,856)	20,250
Other general provisions	9,960	-	(4,222)	-	5,738
Unrealised exchange losses	(63)	-	64	-	1
Trading Losses	-	2,559	72,675	-	75,234
General provision on mortgages and advances	772,535	-	127,022	-	899,557
Net deferred tax	**756,235**	**(6,860)**	**111,432**	**(21,308)**	**839,499**

Group

2016:	01.01.2016 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognised in other comprehensive income KShs'000	31.12.2016 KShs'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**	**-**	**-**

(b) Company

2017:	01.01.2017 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognised in other comprehensive income KShs'000	31.12.2017 KShs'000
Arising from:					
Property and equipment	(4)	-	(27)	-	(31)
Trading tax losses	10	-	43	-	53
	6	**-**	**16**	**-**	**22**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

25. DEFERRED TAX ASSETS/(LIABILITIES) - Continued

(b) Company (continued)

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.

2016:	01.01.2016 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognised in other comprehensive income KShs'000	31.12.2016 KShs'000
Arising from:					
Property and equipment	-	(2)	(2)	-	(4)
Trading tax losses	-	-	10	-	10
	-	**(2)**	**8**	**-**	**6**

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:

	2017 Number of shares	2016 Number of shares
Outstanding at start of year	485,000	530,000
Granted during the year	845,000	930,000
Lapsed	(400,000)	(490,000)
Exercised ESOP during the year	(155,000)	(485,000)
Outstanding at end of year	**775,000**	**485,000**
Exercise price per share – KShs.	10.00	10.00

Options may be exercised at the price of KShs. 10. The trading price of HF Group PLC share as at 31 December 2017 on the Nairobi Securities Exchange was KShs. 9.25 (2016 – KShs. 14.00). All 775,000 (2016 – 485,000) outstanding shares were exercisable as at 31 December 2017.

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 PLC 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

27. CUSTOMERS' DEPOSITS

	Group	
	2017 KShs'000	2016 KShs'000
Government and parastals:		
Payable within 90 days	1,627,985	2,868,406
Payable after 90 days and within one year	-	-
Payable after one year	3,926,996	1,148,963
Private sector and individuals:		
Payable within 90 days	26,215,148	29,729,555
Payable after 90 days and within one year	4,754,294	4,599,470
Payable after one year	219,850	360,632
	36,744,273	**38,707,026**

(a) Included in customers' deposits is KShs. 154,499,797 (2016 – KShs. 26,915,605) due to a subsidiary, HF Development and Investments Limited, KShs. 7,891,865 (2016 – KShs. 7,602,372) due to a subsidiary, First Permanent (East Africa) Limited, KShs. 39,099,549 (2016 KShs. 8,542,247) due to a subsidiary, HF Insurance Agency Limited, and KShs. 7,119,201 (2016 – Kshs. 17,051,582) due to a subsidiary, HF Foundation.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2017 was 7.51% (2016 – 7.3%)

28. OTHER LIABILITIES

	2017		2016	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Interest payable on the Government of Kenya income notes	2,093	-	2,093	-
House sales deposits	124,118	-	129,117	-
Withholding tax payable	59,690	-	65,715	-
Sundry creditors	30,934	-	739,714	-
Contractor certificates due	1,047,636	-	997,639	-
Deferred expenses	1,013,326	-	37,347	
Other liabilities	981,775	111,156	164,853	53,580
	3,259,572	**111,156**	**2,136,478**	**53,580**

29. INVESTMENT PROPERTY

	2017 KShs'000	2016 KShs'000
Total Investment Cost	**748,549**	-

Investment property comprises a commercial property that is leased to third parties. Each of the leases contains an initial non-cancellable period, with annual rents indexed to consumer prices. No contigent rents are charged.

The investment property was independently valued by Tyson's Limited as at 31 December 2017. The valuer is registered and licensed by the Valuers Registration Board of Kenya and has the relevant experience and knowledge of valuing the various properties in the portfolio. The property was valued at KShs. 1,100,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30. LOANS AND BORROWINGS

(a) Borrowings from banks and financial institutions	Group	
	2017	2016
	KShs'000	KShs'000
European Investment Bank	3,783,468	1,873,904
Ghana International Bank (PLC)	1,550,554	640,625
Norwegian Investment Fund for Developing Countries	880,474	1,005,854
Shelter Afrique	1,063,131	1,055,718
International Finance Corporation	591,099	1,174,579
Symbiotics SA	1,813,752	1,793,413
East African Development Bank	1,032,215	1,027,683
NIC Bank Ltd	517,307	-
Cooperative Bank Kenya Ltd	309,643	-
	11,541,643	**8,571,776**

During the year, HFC Limited received USD 22 million from EIB at an interest rate of 4.321% for 7 years, USD 15 million from Ghana International Bank at a rate of 3 months Libor plus a margin of 5% for 2 years and two short term notes from NIC Bank Limited KShs. 500 million and Co-operative Bank of Kenya Limited KShs. 300 million at a rate of 14% and 13% respectively for one year.

The loans from European Investment Bank, Norfund and International Finance Corporation were transferred from HF Group Limited (formerly Housing Finance Company of Kenya Limited) with effect from 3 August 2015. In 2015, HF Group Limited received three tranches from European Investment Bank of USD 7,088,000 at a rate of 5.037%, KShs. 356,283,794 at a rate 10.664% and KShs. 447,052,320 at a rate of 10.712% while in 2012 the Company received two loan tranches from European Investment Bank of KShs. 668,085,425 at 10.783 % and KShs. 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. In 2014, HF Group Limited (formerly Housing Finance Company of Kenya Limited) received KShs. 1 billion from Norfund at an interest rate of the weighted average rate of the 182 Treasury bill auction immediately preceeding the interest payment date. The facility is for 7 years with interest and principal being paid semi – annually. A USD 20 million loan was received from International Finance Corporation on 1 July 2013. The loan is for 5 years at a rate of 6 months USD Libor plus a margin of 4.30%. Interest is paid half-yearly with a 2 year grace period on the principal loan repayment. In 2015, the company received a loan of USD 10 million from Shelter Afrique for a period of 10 years with effect from 23 December 2015 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. In 2016, the company received USD 10 million from East African Development Bank for 7 years with effect from 20 December 2016 at a rate of 7.25%. Interest is paid semi-annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30. LOANS AND BORROWINGS

(b) Borrowed funds

	2017 KShs'000	2016 KShs'000
Group:		
Cresent Finco LLP	739,233	-
Shelter Afrique	710,430	946,929
	1,449,663	**946,929**

In 2015, HF Development and Investments Limited (formerly Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of HF Group PLC 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. The loan balance as at 31 December was KShs. 710,429,810.

In 2015, HF Development and Investments Limited (formerly Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of HF Group PLC took a loan from HFC Ltd. The loan accrues interest at the rate of 14%. Interest expense for the year ended 31 December 2017 amounted to KShs. 11,222,930 (2016: KShs. 15,406,448).

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

	2017 KShs'000	2016 KShs'000
At 1 January	9,518,705	8,322,465
Funds Received	5,377,085	2,821,096
Interest accrual	768,068	
Payments on Principal and Interest	(2,672,552)	(1,624,856)
Net Movement in Borrowings	3,472,601	1,196,240
At December	**12,991,306**	**9,518,705**

31. CORPORATE BOND

	2017 KShs'000	2016 KShs'000
Opening balance	10,217,910	10,212,442
Interest accrual	874,899	1,021,464
Payments on principal and interest	(8,045,440)	(1,015,996)
Net movement in corporate bond	(7,170,541)	5,468
Closing balance	**3,047,369**	**10,217,91**

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

In 2010, the company raised KShs. 7,030,900,000 under the 7 year MTN whose programme size is KShs. 10,000,000,000. The total notes on a fixed rate of 8.5% per annum amount to KShs. 5,865,400,000 while the total notes on floating rate are KShs. 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 KShs. 7,030,900,000 was on 2 October 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32. CAPITAL AND RESERVES

Group and Company:	2017	2016
(a) Ordinary share capital	**KShs'000**	**KShs'000**
Authorised:		
At 1 January		
500,000,000 (2016 – 500,000,000) ordinary shares		
of KShs. 5.00 each	2,500,000	2,500,000
2017 – Nil (2016 – Nil) additional shares		
of KShs. 5.00 each authorised during the year	-	-
At 31 December		
500,000,000 (2016 – 500,000,000) ordinary		
Shares of KShs. 5.00 each	**2,500,000**	**2,500,000**
Issued and fully paid:		
At 1 January:		
349,381,667 (2016 – 348,896,667) ordinary shares		
of KShs. 5.00 each	1,746,908	1,744,483
155,000 (2016 – 485,000) ordinary		
shares of KShs. 5.00 each issued in the year	775	2,425
At 31 December		
349,596,667 (2016 – 349,381,667)		
ordinary shares of KShs. 5.00 each	**1,747,683**	**1,746,908**

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 349,596,667 as at 31 December 2017 (2016 – 349,381,667). During the year, 155,000 (2016 - 485,000) shares were issued under employee share ownership program at KShs. 10 per share leading to a share premium of KShs. 5 (2016 – KShs. 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.

The revaluation reserves include the net change in the fair value of land and buildings and are to be held until the property is derecognised.

	2017	2016
	KShs	**KShs**
As at 1 January 2017	-	-
Change in fair value during the period		
Land and Builidings	189,032	-
Less: Related Tax	(9,452)	-
As at 31 December 2017	**179,580**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32. CAPITAL AND RESERVES(Continued)

(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 2017 KShs'000	Group 2016 KShs'000
As at 1 January	(75,890)	(58,678)
Change in fair value during the year		
Treasury bonds classified as available for sale	39,520	(24,167)
Deferred tax effect	(11,856)	6,955
As at 31 December	**(48,226)**	**(75,890)**

33. SHAREHOLDERS' INCOME NOTES AND LOANS

	2017 KShs'000	2016 KShs'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 (2016 – 8.25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

34. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Group reconciliation of operating profit to net cash flows from operating activities	2017 KShs'000	2016 KShs'000
Profit before taxation	311,624	1,365,653
Adjustments for:		
Depreciation	167,792	153,449
Amortisation of intangible assets	182,398	172,583
Amortisation of prepaid operating lease rentals	643	645
Profit on sale of property and equipment	115	(3,962)
Decrease of balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	257,525	31,452
(Decrease)/increase in customer deposits	(1,962,753)	(2,958,059)
Increase/ (decrease) in mortgage and advances to customers	4,829,966	(1,448,583)
Investment in Government securities	1,837,774	(1,957,753)
(Increase) in Investment properties	(748,549)	-
Increase in housing projects	(414,165)	(681,100)
Profit on investment in joint ventures	22,771	(17,773)
Increase/(decrease) in other assets	16,679	(179,942)
Increase in other liabilities	1,123,096	1,479,205
Net cash flows from operating activities before tax	**5,624,916**	**(4,044,185)**
Income tax paid	(407,082)	(816,350)
Net cash flows from operating activities	**5,217,834**	**(4,860,535)**

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

	2017 KShs'000	2016 KShs'000	Change in the year KShs'000
Cash in hand and bank	2,170,212	2,863,199	(692,987)
Balances due from banking institutions	1,492,637	1,616	1,491,021
	3,662,849	**2,864,815**	**798,034**

(c) Company reconciliation of operating profit to net cash flows from operating activities	2017 KShs'000	2016 KShs'000
Profit before taxation	184,101	225,656
Depreciation	53	1,930
Increase in other assets	(26,716)	4,978
Increase in other liabilities	1,267	26,460
Net cash flows from operating activities before tax	**158,705**	**259,023**
Income tax paid	(12,889)	(5,108)
Net cash flows from operating activities	**145,816**	**253,915**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

(d) Company analyses of cash and cash equivalents

	2017	2016	Change in the year
	KShs'000	KShs'000	KShs'000
Cash in hand and bank	28,384	67,832	(39,448)

35. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2017, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs. 280 million (2016 – KShs. 1,053 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 KShs. 120 million 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 KShs. 20 million plus interest. HFC Limited has appealed against the judgment and the matter is pending in the Court of Appeal. Directors believe that the defence against the action will be successful.

Kampala International University Limited (KIU) vs. HFC Limited The Plaintiff filed a claim in arbitration for a total claim of approximately USD 16.6 million plus interest being lost profits due to alleged delays in implementation of a project financed by HFC Ltd. HFC has filed a statement of response and a counterclaim seeking Judgment against KIU for the sum of USD 13.8 illion, plus interest being the sum owed to HFC by KIU. Based on legal advice, the Directors do not expect the liability to crystallize.

In 2010, Kenya Revenue Authority (KRA) carried out a tax audit of Housing Finance Company of Kenya (Now HF Group PLC) for the years 2006 – 2009 and raised a claim of KShs. 61,369,382 (including penalties and interest). HF Group PLC appealed against KRA's assessments for KShs. 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 KShs. 51,142,134, KRA conceded KShs. 28,338,768, HF Group PLC paid KShs. 6,205,446 and applied for waiver of penalties and interest amounting to KShs. 16,597,920 to the Cabinet Secretary for the National Treasury. Based on legal advice, management believes that its defence of the actions will be successful.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

36. OPERATING LEASE ARRANGEMENTS

The bank as a lessor

Rental income earned during the year was KShs. 78,185,663 (2016 – KShs. 50,066,142). At the reporting date, the Group had contracted with tenants for the following future lease receivables:

	2017 KShs'000	2016 KShs'000
Within one year	41,601	29,463
In second to fifth year inclusive	134,138	129,261
After five years	1,558	13,891
	177,297	**172,615**

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:

	2017 KShs'000	2016 KShs'000
Within one year	82,242	84,498
In second to fifth year inclusive	176,963	326,314
After five years	-	4,045
	259,205	**414,857**

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

37. MORTGAGE COMMITMENTS

Group:

Loan commitments amounting to KShs. 4,942,994 (2016 – KShs. 6,482,459) are analysed below:

	2017 KShs'000	2016 KShs'000
Commitment in principle but not authorised for payment	1,889,776	3,023,497
Authorised but not paid	3,053,218	3,410,631
	4,942,994	**6,434,128**

38. CAPITAL COMMITMENTS

Group:

Authorised but not contracted	53,740	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

39. ASSETS PLEDGED AS SECURITY

As at 31 December 2017, there were no assets pledged by the Group to secure liabilities nor secured Group liabilities other than as disclosed on Note 31.

40. RELATED PARTY TRANSACTIONS

Group:

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

(a) Loans

	2017 KShs'000	2016 KShs'000
At 1 January	1,095,525	1,002,120
Loans advanced during the year	312,372	374,903
Loans repayments received	(383,398)	(281,498)
At 31 December	**1,024,499**	**1,095,525**
Comprising:		
Mortgages and advances	888,970	956,510
Personal loans	121,988	123,042
Staff car loans	13,541	15,973
Other	-	-
At 31 December	**1,024,499**	**1,095,525**

Included in related party are staff car loans of KShs. 13,540,721 (2016 – KShs. 15,973,214) and staff personal loans of KShs. 121,988,266 (2016 – KShs. 123,041,557). The related interest income for staff car loans and staff personal loans in 2017 was KShs. 1,473,863 (2016 – KShs. 1,495,736) and KShs. 8,658,112 (2016 – KShs. 7,592,051) 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 2017 amounted to KShs. 243,172,012 (2016 – KShs. 282,241,560).

(d) Transactions with Britam Insurance Company (Kenya) Limited	2017 KShs'000	2016 KShs'000
Bank balances held with HFC Limited/HF Group Limited	224,267	118,000

(e) Transactions with Britam Holdings Limited

	2017	2016
Bank balances held with HFC Limited/HF Group Limited	-	400,000

(f) Transactions with Britam American Assets Managers Limited

	2017	2016
Bank balances held with HFC Limited/HF Group Limited	700,000	-


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PROXY FORM

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

I/We____

Of____

Being a member/members of HF GROUP PLC 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 52nd Annual General Meeting of the Company to be held on the 27th day of April 2018, or at any adjournment thereof.

Number of shares held ____

Account number ____(if known)

Signed this ________________________ day of_____________________2018.

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 25th April 2018, failing which it will be invalid.

FOMU YA UWAKILISHI

KWA: The Registrar
HF Group PLC
Rehani House Kenyatta Avenue
S.L.P 30088
00100 NAIROBI GPO

Mimi/ Sisi: ____

Kutoka: ____

Kama mwanachama wa HF Group PLC namteua:

Kutoka ____

Au akikosa, Mwenyekiti wa Mkutano kuwa wakala wangu/ wetu kupiga kura kwa niaba yangu/yetu wakati wa kikako cha mkutano wa 52 wa pamoja wa mwaka wa kampuni utakaofanyika Aprili 27, 2017 au kuahirishwa.

Idadi ya hisa zinazomilikiwa ____

Nambari ya akaunti: ____ (endapo inajulikana)

Imetiwa sahihi ____________________________________tarehe ____________________________2018

____
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 25, 2018 na endapo itachelewa, haitakuwa na uhuhimu wowote.

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

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