Annual 2019 Report

AND FINANCIAL STATEMENTS

HF GROUP

Dreams Made Possible

INTRODUCING

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Dreams Made Possible

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HFC Limited is regulated by the Central Bank of Kenya.

CONTENTS

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Dr. Steve O. Mainda	Chairman
Robert Kibaara	Group Chief Executive Officer
Dr. Kaushik Manek	
Dr. Benson Wairegi	
Dr. Peter K. Munga	
Adan D Mohamed	
Constance Gakonyo	
Felister Kembi	
Gladys Karuri	

COMPANY SECRETARY

Regina Anyika (CPS 880)
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 – 00100
Nairobi

REGISTERED OFFICE

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

SHARE REGISTRAR

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

BANKER

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

AUDITOR

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

HF GROUP DIRECTORS

Steve Mainda, 74 years
GROUP BOARD CHAIRMAN
INDEPENDENT &
NON EXECUTIVE

Peter Munga, 77 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Benson Wairegi, 67 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Adan Mohamed, 57 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Constance Gakonyo, 55 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Kaushik Manek, 62 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Gladys Karuri, 47 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
EXECUTIVE &
NON INDEPENDENT

Felister Kembi, 64 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

HFC DIRECTORS

Kaushik Manek, 62 years
BOARD CHAIRMAN
INDEPENDENT &
NON EXECUTIVE

Benson Wairegi, 67 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Gladys Ogallo, 53 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Nicholas Ashford-Hodges, 69 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Shilpa Haria, 60 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

HF DEVELOPMENT & INVESTMENT DIRECTORS

Adan Mohamed, 57 years
BOARD CHAIRMAN
INDEPENDENT &
NON EXECUTIVE

Peter Munga, 77 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Benson Wairegi, 67 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

Caroline Ongeri, 51 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

HF INSURANCE AGENCY DIRECTORS

Constance Gakonyo, 55 years
BOARD CHAIRPERSON
INDEPENDENT &
NON EXECUTIVE

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

Christopher Khaemba, 60 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

Patrick Njunge, 40 years
DIRECTOR, RETAIL
NON INDEPENDENT &
NON EXECUTIVE

HF FOUNDATION DIRECTORS

Peter Munga, 77 years
BOARD CHAIRMAN
NON INDEPENDENT &
NON EXECUTIVE

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
NON EXECUTIVE

Christopher Khaemba, 60 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE

BOARD OF DIRECTORS

Dr. Steve Omenge Mainda, EBS I Date of Appointment: 17th April 2014
Chairman - Independent & Non Executive Director

Dr. Steve Mainda (EBS) is the current Chairman of HF Group PLC and was appointed director on 1st July 2009. He has a broad and extensive background in finance, insurance, investment, education and management.

He is a Fellow of the Institute of Directors of London and an Associate Member of the Chartered Insurance Institute of London. He holds M.A and B.A Degrees from the Universities of Princeton and Cambridge. He sits on the Board of several companies in Eastern Africa viz: Continental Reinsurance, Shelter Afrique, Sasini Plc, Ryce East Africa, Dubai Islamic Bank Kenya among others.

Robert Kibaara I Date of Appointment: 1st March 2019
Group Chief Executive Officer - Executive & Non Independent

Robert is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

He holds a Bachelor's Degree in Banking and Finance from the University of Sunderland (UK) and a Post Graduate Diploma from the Chartered Institute of Marketing (CIM) UK.

Dr. Benson I. Wairegi, EBS I Date of Appointment: 1st April 2008
Non Independent & Non Executive Director

Dr. Benson I. Wairegi, EBS, has worked for Britam Holdings Plc in various capacities and is currently the Group Managing Director. He previously worked with Price Waterhouse, the forerunner of PricewaterhouseCoopers. He is a director at Britam Holdings Plc and the Chancellor of Kenyatta University. He is also the Chairman of Endeavor Kenya an organization headquartered in New York City that is pioneering the concept of high-impact entrepreneurship in growth markets around the world. He is a former Chairman of the Association of Kenya Insurers (AKI) and former Board member of the Board of Trustees of the Insurance Training and Education Trust (ITET).

Dr. Wairegi holds an Honorary Doctorate Degree (Honoris Causa) from Kenyatta University, Bachelor of Commerce and Master of Business Administration degrees from the University of Nairobi. He is a Certified Public Accountant (CPA-K). He has significant insurance and financial services industry experience.

Dr. Peter K. Munga, EGH I Date of Appointment: 1st July 2008
Non Independent & Non Executive Director

Dr. Peter K. Munga, EGH, is a Certified Public Secretary with vast experience in both public and private sector management. He holds two honorary doctorates, Doctor of Letters (Honoris Causa) from The University of Nairobi, and Entrepreneurship (Honoris Causa) from Kenya Methodist University. He has a diploma in Human Resources and Financial Management. He has received the highest presidential award to a civilian, the First Class Chief of the Order of the Burning Spear (CBS) and also the Second Class Order of the Golden Heart of Kenya (EGH) national decoration, for his outstanding contributions in economic development. Dr. Munga is the Chairman of Pioneer Group of Schools, Equatorial Nut Processors Ltd, Freshco Seeds Ltd and Murang'a Water and Sewerage Company (MWASCO). He is the current Chancellor of Pioneer International University. He is a Director with Britam Holdings Ltd and HF Group.

Adan D. Mohamed, Juris Doctor (JD), EBS I Date of Appointment: 15th October 2012
Independent & Non Executive Director

Mr. 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.

BOARD OF DIRECTORS (CONTINUED)

Constance Gakonyo, CPS (K), MCIArb, CBS I Date of Appointment: 17th April 2014
Independent & Non Executive Director

Ms. 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. Constance is the Chairperson of the HF Insurance Agency Limited Board and also seats 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, EBS I Date of Appointment: 26th June 2015
Independent & Non Executive Director

Dr. Kaushik Manek, EBS was appointed as a Non-Executive Director of HF Group PLC effective 26th June 2015. Upon completing his education, locally in Kenya and the UK, 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.

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 and the Desai Memorial Foundation, amongst others.

Felister Kembi I Date of Appointment: 26th September 2016
Independent & Non Executive Director

Ms. Felister Kembi joined the board on 26th September 2016. She is a graduate of the University of Nairobi with a Bachelors Degree in Commerce (Accounting option). 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 I Date of Appointment: 4th November 2016
Independent & Non Executive Director

Gladys joined the HF Group board on 4th November 2016. She is currently the Group Finance & Strategy Director in Britam. A Certified Public Accountant (Kenya) CPA and a member of the Institute of Certified Accountants of Kenya, Gladys is a Mathematics and Economics graduate of the University of Nairobi and holds an MBA from the University of Warwick, Warwick Business School.

Gladys started her working career with PricewaterhouseCoopers working in both Kenya and the United Kingdom where she rose to the position of Senior Manager, Assurance. She left PricewaterhouseCoopers in 2007 and joined Britam as the Chief Finance Officer. In 2011 she was promoted to the position of Group Finance and Strategy Director of Britam Holdings Ltd. Gladys is also a Director of Continental Reinsurance Ltd.

SENIOR MANAGEMENT TEAM

Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE OFFICER

Regina Anyika, 52 years
COMPANY SECRETARY & DIRECTOR, LEGAL

David Igweta, 48 years
AG. CHIEF OPERATIONS OFFICER

Patrick Njunge, 40 years
DIRECTOR, RETAIL

Rose Muturi, 39 years
CHIEF DIGITAL OFFICER

Peter Mugeni, 43 years
DIRECTOR, CREDIT

SENIOR MANAGEMENT TEAM

Joseph Ngare, 51 years
GENERAL MANAGER, AUDIT

Edmund Muchemi, 41 years
AG. CHIEF FINANCE OFFICER

Tom Shivo, 48 years
DIRECTOR, HUMAN RESOURCES

Joseph Chikove, 37 years
HEAD OF TREASURY

Kennedy Gachoki, 45 years
HEAD OF RISK

SENIOR MANAGEMENT TEAM

Robert Kibaara
Group Chief Executive Officer

Robert is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; General Manager - Integrated Distribution for Southern Africa and General Manager Personal Banking & New Business at Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

He holds a Bachelor's Degree in Banking and Finance from the University of Sunderland (UK) and a Post Graduate Diploma from the Chartered Institute of Marketing (CIM) UK.

Regina Anyika
Company Secretary and Director, Legal

Regina is a seasoned legal professional with expertise in governance, commercial law, labour relations and dispute resolution, deal structuring for Capital Raising including corporate bonds, Rights Issues, Mergers and Acquisitions. She joined HF Group Plc in September 2013 and is currently the Company Secretary and Director, Legal. 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). She is an award winning legal expert, having been recognized in the 2015 Legal 500's list of the top 100 corporate counsel in Africa (www.Legal500.com).

Peter Mugeni
Director, Credit

Peter is a seasoned Banker, with over 15 years' experience in Credit Risk Management and Operations, as well as leading large teams both regionally and across Africa. Through his experience, he has formulated and implemented business strategies which have made significant turnaround impacts to the Organizations he has worked for. He joined HF Group from Standard Bank of South Africa where he was Credit Executive responsible for Sanctioning and Monitoring of Large Exposures from Stanbic Africa entities (including Kenya). Prior to that, he was the Head of Credit, Personal and Business Banking for Stanbic Bank Tanzania for 5 years.

Peter has previously worked at Housing Finance as an Accounts Officer, Credit Analyst and Assistant Credit Manager, and with Stanbic Bank Kenya Limited as Credit Origination Manager (Corporate & Investment Banking), Credit Evaluation Manager (Personal and Business Banking) and Head of Credit, Business Banking. He holds a Master of Science in Finance (Banking Option) and a Bachelor of Commerce degree (Finance Option) both from the University of Nairobi. In addition, he is a Certified Retail Banker (CRB), Certified Chartered Accountant (ACCA) and a fellow of the Retail Banking Academy of the United Kingdom.

Tom Shivo
Director, Human Resources

Tom is a seasoned HR practitioner with 25 years working experience. 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 one year. At Coca-Cola Sabco, he was the Country HR Manager for the Kenya business, and previous 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.

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).

SENIOR MANAGEMENT TEAM (CONTINUED)

Edmund Muchemi
Ag. Chief Finance Officer

Edmund joined the Group on 6 August 2007 as a Management Accountant for the Group and rose through the ranks to his current role as the Ag. Chief Finance Officer. Prior to joining the group, Edmund worked with the Equity Bank, Security Group Africa Ltd, and Muthaiga Golf Club. Edmund is a seasoned Accountant with over 20 years' working experience in banking, security services and hospitality sector. He is a Qualified Accountant and a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Joseph Chikove
Head of Treasury

Joseph is a seasoned treasury professional, with over 12 years' experience in the banking industry across the East African Region. He has had an excellent track record orchestrating high team performance in the treasury business.

Prior to joining HF Group in 2019, Joseph held various positions including Head of Treasury at NIC Bank Uganda, Senior Treasury Dealer at NIC Bank Tanzania and Treasury Dealer at NIC Bank Kenya and Fina Bank Kenya Limited.

Joseph is currently undertaking his Master's in Business Administration from Edinburgh Business School and holds a Bachelor of Commerce degree from University of Nairobi. He also holds an ACI Dealing Certificate and is a member of the Financial Markets Association of Kenya (ACI Kenya) and a student member of Chartered Institute for Securities and Investments.

Kennedy Gachoki
Head of Risk

Kennedy joined HFC in November 2015 to oversee the Enterprise Risk Management Division with functional reporting responsibilities to Board Risk Committee. He joined HFC from Central Bank of Kenya (CBK) where he had served since June 2008, in Bank Supervision Department. He has vast experience in banking risk management processes including in risk identification, risk measurement, risk control and risk monitoring. He has also participated in several international and local forums on banking risk management including compliance related trainings.

Kennedy holds a Master Degree in Business Administration (MBA-Finance) from the University of Nairobi and a Bachelor of Commerce Degree in Accounting. He is also a Certified Public Accountant CPA (K).

Rose Muturi
Chief Digital Officer

Rose is a seasoned Commercial and Business Transformation practitioner with 13 years working experience cutting across banking, credit scoring, product development & pricing, digital financial services and technology. She joins HF from Tala, where she was an Executive Director, and Regional Manager (East Africa). Prior to this, she was the Country Manager for the Kenya business.

She has previously worked with TransUnion Kenya where she was the Ag. Country Manager, an Executive member of the Board and Director Products & Strategy for Sub-Saharan Africa. She also worked at Chase Bank as a Pricing and Retail Banking lead in the projects office and at Standard Chartered Bank, where she held various roles, including Snr. Relationship Manager – Priority Banking; Business Planning Manager and Business Analyst.

Rose is currently pursuing an Executive MBA from Strathmore University Business School. She holds a BSc. Statistics & Computer Science from JKUAT and a Diploma in Information Technology. She is the current vice chairperson of the Digital Lenders Association of Kenya (DLAK).

SENIOR MANAGEMENT TEAM (CONTINUED)

David Igweta
Ag. Chief Operations Officer

David is an astute ICT and operations expert with over 22 years of experience in Information Technology and Banking. Before joining HF Group, he worked as the Head of Technology and Operations at Spire Bank, GM ICT at NIC Bank, Soluziona (an entity affiliated to the Spanish Power company as a systems consultant) and Car and General.

David has expertise in policy formulation and best practice in ICT governance standards implementation, project and program management, IT Security and key strategic road map formulation and roll-out. He is well versed with IT and operational trends in banking and payment systems with deep involvement in Fin-tech engagements and partnerships.

David holds a degree in Mathematics and Computer Studies from Kenyatta University and various accreditation and certifications. He brings this expertise and experience to HF Group.

Patrick Njunge
Director, Retail

Patrick is a seasoned results-driven banker with 12 years' experience in banking. He has good experience in building business units, driving innovation and entrenching excellence in customer experience. Patrick has managed various business units and has broad experience in digital and retail banking. Some of the roles he has managed in the past include Portfolio Manager - Lending; Head of Credit Cards business, Head of Retail Products and Segments, and Head of Digital Business across 3 banks; NIC Bank, National Bank and Standard Chartered Bank.

Patrick is a holder of a Global Executive MBA from USIU in partnership with Frankfurt School of Business and a Bachelor of Arts Degree in Economics, among other qualifications.

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).

NOTICE OF ANNUAL GENERAL MEETING

To the Shareholders of HF GROUP Plc **(FORMERLY HF GROUP LIMITED)**
NOTICE IS HEREBY GIVEN that in accordance with an order by the High Court of Kenya in Miscellaneous Application No. E680 of 2020 on 29th April 2020, the 54th Annual General Meeting of the Company will be held via electronic communication on Friday, 10th July 2020 at 10.00 a.m. 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 2019, together with the Chairman's, the Directors' and Auditor's Reports thereon.

4. To note that the Directors do not recommend the payment of a dividend for the year ended 31st December 2019.

5. To elect Directors:
   a) Ms. Felister Kembi retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, offers herself for re-election.

   b) Dr. Steve Omenge Mainda retires by rotation in accordance with Article 105 of the Company's Articles of Association and does not offer 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
   - Ms. Gladys Karuri

7. To receive, consider and, if thought fit, approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.

8. To appoint PricewaterhouseCoopers (PWC) Kenya as the new auditors of the Company in place of KPMG Kenya (whose term expires at the end of this meeting) in accordance with Sections 721 and 724 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix their remuneration.

SPECIAL BUSINESS

9. "That, by way of special resolution Articles 59 and 60 of the Articles of Association of the Company be and are hereby amended to provide for holding of Annual General Meetings and Extraordinary General Meetings virtually and for voting to be carried out by electronic means".

10 . To consider any other business for which due notice has been given.

BY ORDER OF THE BOARD
Regina Anyika
Company Secretary
P.O. Box 30088, GPO 00100
NAIROBI
Date: 12th June 2020

NOTES:
1. Owing to the ongoing Coronavirus 2019 (COVID-19) pandemic and the related Public Health Regulations and directives passed by the Government restricting public gatherings, it is impossible, for the Company to hold a physical AGM in the manner envisaged under the Company's Articles of Association and section 280 of the Companies Act 2015. On 29 April 2020, the High Court of Kenya in Miscellaneous Application No. E680 of 2020, issued an order permitting any company listed on the Nairobi Securities Exchange to convene and conduct a virtual general meeting subject to receipt of a 'No Objection' from the Capital Markets Authority ('CMA'). Relying on this court order, HF Group PLC. has convened and will conduct its virtual annual general meeting following receipt of a No Objection from the CMA.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

2. Shareholders wishing to participate in the meeting should register for the AGM by dialling *483*813# on their mobile telephone across all networks and follow the various prompts on the registration process. Shareholders will not incur any cost for such registration.

3. To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number. For assistance during registration shareholders, (whether in Kenya or outside) should dial the following helpline number: (+254) 709 170 000 from 9:00 a.m. to 3:00 p.m. from Monday to Friday.

4. Registration for the AGM opens on Tuesday, 16th June 2020 at 9:00 am and will close on Monday 6th July 2020 at 10.00 a.m. Shareholders will not be able to register after this time.

5. In accordance with Article 160 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.hfgroup.co.ke (a) a copy of this Notice and the proxy form; (b) the Company's Annual Report & Audited financial statements for the year ended 31st December 2019; (c) a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; and (d) a copy of the No Objection issued by the CMA.

6. Any shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. Such proxy need not be a member of the Company.

7. A proxy form is provided with the Annual Report. The proxy form can also be obtained from the Company's website www.hfgroup.co.ke or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, P. O. Box 9287 – 00100, Nairobi, Kenya. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company or P.O. Box 30088 – 00100, Nairobi so as to arrive not later than Wednesday, 8th July 2020 at 10.00 a.m.

8. Duly signed proxy forms may also be emailed to info@image.co.ke in PDF format. A proxy form must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.

9. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before Monday, 6th July 2020 at 10.00 a.m. by: (a) sending their written questions by email to agmquestions@hfgroup.co.ke; or (b) to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 30088 – 00100, Nairobi, or to Image Registrars offices at the address above.

   Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions or clarifications.

   The Company's directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the AGM.

10. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, as a reminder that the AGM will begin in an hours' time and providing a link to the live stream.

11. Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote (when prompted by the chairman) via the USSD prompts.

12. Results of the resolutions voted on will be published on the Company's website i.e. www.hfgroup.co.ke within 24 hours following conclusion of the AGM.

Shareholders are encouraged to continuously monitor the Company's website for any updates relating to the AGM owing to the changing situation arising from the COVID-19 pandemic. We appreciate the understanding of our shareholders as we navigate the evolving business conditions posed by COVID-19.

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA

Kwa Wanahisa wa **HF GROUP Plc (ZAMANI IKIJULIKANA KAMA HF GROUP LIMITED)**

NOTISI INATOLEWA HAPA KWAMBA, kufungamana na agizo la Mahakama kuu ya Kenya kuhusu ombi la ufafanuzi wa kisheria nambari E680 la mwaka 2020 tarehe 29,2020, Mkutano wa Pamoja wa Mwaka wa Kampuni utafanyika kupitia mawasiliano ya kielektroniki siku ya Ijumaa Julai 10, 2020 kuanzia saa nne asubuhi ili kutekeleza maswala yafuatayo ya kibiashara:

1. Kutangaza mawakala na kutambua akida ya mkutano.
2. Kusoma Notisi ya kuitishwa kwa Mkutano.
3. Kupokea na endapo itaidhinishwa kupitisha hesabu ya matumizi ya pesa iliyofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2019 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa.
4. Kutambua kwamba Wakurugenzi hawatoi pendekezo lolote la malipo ya mgawo wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2019.
5. Kuwachagua wakurugenzi:

    a) Bi. Felister Kembi anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.

    b) Dkt.Steve Omenge Mainda anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.

    c) Dkt. Peter Kahara Munga anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa amefikisha umri wa miaka 70 anastaafu tena kwa mujibu wa taratibu za maadili ya usimamizi wa mashirika kwa utoaji wa dhamana kwa umma na kwa kuwa hali inamruhusu, anajitokeza ili kuchaguliwa tena

6. Kwa mijibu wa vifungu vya sehemu ya 769 vya sheria za makampuni ya mwaka 2015 , wakurugenzi wafuatao ambao ni wanachama wa kamati ya kundi la halmashauri ya uhasibu na hatari, wachaguliwe ili kuendelea mbele na jukumu lao la kuhudumu kama wanachama wa kamati iliyotajwa:

    - Bi. Felister Kembi
    - Bw. Adan Mohamed
    - Bi. Gladys Karuri

7. Kupokea, kuangazia na endapo itaonekana kuwa sawa, kuidhinisha ripoti ya marupurupu ya wakurugenzi na kuaimuru Halmashauri kuamua kiwango cha marupurupu ya wakurugenzi.
8. Kuteua PricewaterhouseCoopers (PWC) kama wakaguzi wapya wa pesa wa kampuni ili kuchukua mahali pa KPMG Kenya (ambao kipindi chao kilimalizika baada ya mkutano huu) kwa mujibu wa sehemu ya 721 na 724 za sheria za makampuni nambari 17 za mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu yao.

SHUGHULI MAALUM.

9. ʻʻ Kwamba, kupitia njia ya azimio maalum katika vifungu nambari 59 na 60 la sheria za makampuni, ifanyiwe na kurekebishwa ili kuwezesha kufanyika kwa mkutano wa pamoja wa mwaka na mkutano usio wa kawaida bila watu kukutana pamoja na kwa uchaguzi kufanyika kwa njia ya kielektroniki’

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

10. Kuzingatia shughuli nyingine zozote ambazo notisi yake itakuwa imetolewa.

KWA AMRI YA HALMASHAURI

Regina Anyika

Katibu wa Kampuni

SLP 30088, GPO 00100

NAIROBI

Tarehe : 12th Juni 2020

NUKUU:

1. Kutokana na janga linaloendelea sasa la Coronovirus 2019 (COVID-19) pamoja na masharti mengine ya kiafya na maagizo yaliyopitishwa na serikali kuzuia mikusanyiko ya watu, itakuwa vigumu kwa kampuni kuandaa mkutano wa pamoja wa mwaka kwa njia ya watu kukutana pamoja kama ilivyoelezewa kupitia sheria za makampuni na sehemu ya 280 ya sheria za makampuni ya mwaka 2015. Mnamo Aprili 29, 2020, mahakama kuu ya Kenya kupitia ombi la ufafanuzi wa sheria nambari E680 la mwaka 2020, ilitoa agizo kuhusiana na kampuni yoyote iliyoorodheshwa kwenye soko la hisa la Nairobi kuitisha na kuandaa mkutano wa pamoja kwa njia ya mtandao baada ya kupokea idhini ya '' HAKUNA PINGAMIZI'' kutoka Halmashauri ya masoko ya hisa. Kwa kutegemea agizo hili la mahakala, HF Group PLC imeitisha na itaandaa mkutano wake wa pamoja baada ya kutopokea pingamizi lolote kutoka CMA.

2. Wanahisa wanaotaka kushiriki wajisajili kuhudhuria mkutano wa pamoja wa mwaka kwa kupiga nambari *483*813# kupitia mitandao yote na kufuata maagizo ya taratibu za usajili. Wanahisa hawataingia gharama yoyote kwa usajili kama huu.

3. Ili kukamilisha taratibu za usajili, wanahisa watahitajika kuonyesha nambari zao za kitambulisho cha uraia/ nambari ya cheti cha usafiri (paspoti) ambazo zilitumika wakati wa ununuzi wa hisa zao na nambari yao ya akaunti ya CDSC. Kwa usaidizi wakati wa usajili, wanahisa wapige nambari zifuatazo za simu, wawe nchini au nje ya nchi: (+254) 709 170 000 kuanzia saa tatu asubuhi hadi tisa alasiri siku za Jumatatu hadi Ijumaa. Wanahisa walioko nje ya Kenya wapige simu kupitia nambari ya utoaji huduma ili kupata usadizi wakati wa usajili.

4. Usajili kwa mkutano wa pamoja wa mwaka utafunguliwa siku ya Jumanne Juni 16, 2020 kuanzia saa tatu asubuhi na utafungwa Jumatano Julai 8, 2020 saa nne asubuhi. Wanahisa hawataweza kusajiliwa baada ya muda huu kupita.

5. Kufungamana na sehemu ya 160 ya sheria za makampuni, stakabadhi zifuatazo zinaweza kupatikana kupitia wavuti wa kampuni www.hfgroup.co.ke (a) nakala ya notisi hii na fomu ya wakala ; (b), Ripoti ya mwaka ya kampuni na taarifa za matumizi ya pesa zilizofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2019 (c) nakala ya agizo la mahakama kuu kuhusiana na ombi la ya ufafanuzi wa kisheria nambari E680 la mwaka 2020 na (d) nakala ya kutotoa pingamizi yoyote iliyotolewa na CMA .

6. Mwanahisa yeyote aliyeruhusiwa kuhudhuria na kupiga kura wakati wa mkutano wa pamoja wa mwaka anaweza kumteua wakala kuhudhuria na kupiga kura kwa niaba yake. Si lazima kwa wakala huyo kuwa mwanachama wa kampuni.

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA

7. Fomu ya uwakala imeambatishwa na ripoti hii ya mwaka. Fomu ya wakala inaweza pia kupatikana kupitia wavuti wa kampuni; www.hfgroup.co.ke au Image Registrars Limited Absa Towers (Zamani Barclays Plaza), orofa ya 5, Loita Street, S.L.P 9287 – 00100, Nairobi, Kenya. Wanahisa ambao wanapendekeza kutohudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya uwakala na kuirejesha kwa Image Registrars Limited au kwa ofisi ya kampuni iliyosajiliwa ili iweze kufika kabla au ifikiapo Jumatatu Julai 6, 2020 saa tano asubuhi.

8. Fomu ya uwakala iliyotiwa sahihi kikamilifu inaweza kutumwa kupitia barua pepe info@image.co.ke kwa mfumo wa PDF. Ni lazima kwa fomu ya uwakala iwe imetiwa sahihi na mwenye kuteua au wakala wake kwa njia ya kuandika. Endapo anayeteua ni shirika, nakala inayomteua wakala iwe imepigwa mhuri wa kampuni au kutiwa sahihi na afisa aliyeidhinishwa na wakili wa shirika kama hilo.

9. Wanahisa wanaotaka kuuliza maswali yoyote au ufafanuzi kuhusiana na mkutano wa pamoja wa mwaka wanaweza kufanya hivyo kabla ya Jumatatu Julai 6, 2020 saa nne asubuhi kwa njia zifuatazo: (a) kutuma maswali waliyoandika kwa agmquestions@hfgroup.co.ke; au (b) ikiwezekana kuwasilisha kwa njia ya moja kwa moja au kutuma kwa njia ya posta pamoja na anwani ya kutuma majibu au anwani ya barua pepe kwa ofisi ya kampuni iliyosajiliwa au S.L.P 30088 – 00100, Nairobi, au kwa ofisi za Image Registrars kupitia anwani zilizotajwa hapo juu.

   Ni lazima kwa wanahisa kutoa maelezo yao kamili (majina kamili, nambari ya kitambulisho/ akaunti ya CDSC) wakati wanapotuma maswali yao au ufafanuzi.

   Wakurugenzi wa kampuni watatoa majibu yaliyoandikwa kuhusu maswali yaliyopokelewa kupitia anwani ya majibu , posta au barua pepe iliyotolewa na mwanahisa saa 12 kabla ya kuanza kwa mkutano wa pamoja wa mwaka. Orodha kamili ya maswali yaliyopokewa na majibu yatachapishwa kupitia wavuti wa kampuni saa 12 kabla ya kuanza kwa mkutano mkuu wa pamoja wa mwaka.

10. Mkutano wa pamoja wa mwaka utaendeshwa kwa njia ya moja kwa moja (stream live) kupitia kiunganishi ambacho kitatolewa kwa wanahisa wote ambao watakuwa wamejisajili kushiriki mkutano huo. Wanahisa waliosajiliwa kikamilifu pamoja na mawakala watapokea ujumbe mfupi (SMS/USSD) kupitia nambari zao za simu zilizosajiliwa saa 24 kabla ya kuanza kwa Mkutano wa pamoja wa mwaka kuwakumbusha kuhusu mkutano. Ujumbe wa pili wa SMS/USSD utatumwa saa moja kabla ya kuanza kwa mkutano kuwakumbusha kwamba mkutano wa pamoja wa mwaka utaanza kwa muda wa saa moja ijayo na kuwapa kiunganishi ili kufuatilia matukio moja kwa moja.

11. Wanahisa na mawakala ambao wamejisajili kuhudhuria mkutano a pamoja wa mwaka wanaweza kufuatilia matukio moja kwa moja, kusoma agenda na kupiga kura (watakaposhauriwa na mwenyekiti) kupitia njia ya USSD.

12. Matokeo ya maazimio yaliyopitishwa yatachapishwa kupitia wavuti wa kampuni www.hfgroup.co.ke chini ya muda wa saa 24 baada ya kukamilika kwa mkutano mkuu wa pamoja wa mwaka

Wanahisa wanahimizwa kuendelea kufuatilia wavuti wa kampuni ili kupata maelezo yoyote yanayofungamana na mkutano mkuu wa pamoja wa mwaka kutokana na mabadiliko ya sasa yaliyoletwa na janga la COVID-19. Tunathamini uelewa wa wanahisa wetu huku tunapotathmini hali zinazojitokeza za biashara zilizoletwa na janga la COVID-19.

GROUP OVERVIEW

HF Group Plc, 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 on 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)

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 system

TRANSITION 2017

FULL SERVICE BANKING

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

DIGITAL TRANSFORMATION 2018

- Launch of HF Whizz digital banking platform
- Completion of Komarock Heights Phase 1
- Recognition of HF Whizz as an innovative digital banking platform – 2018 CIO East Africa Awards,Gold Mark and Plus One Award - Best Financial Services Sector Awards

BUSINESS TRANSFORMATION 2019

- Successful Redemption of the KShs. 3 billion Corporate Bond
- Launch of HF Whizz WhatsApp banking
- Completion of Richland Pointe
- Roll out of the business transformation strategy

GROUP OVERVIEW (CONTINUED)

MISSION AND VISION

Our Mission

Our non-negotiable commitments

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.

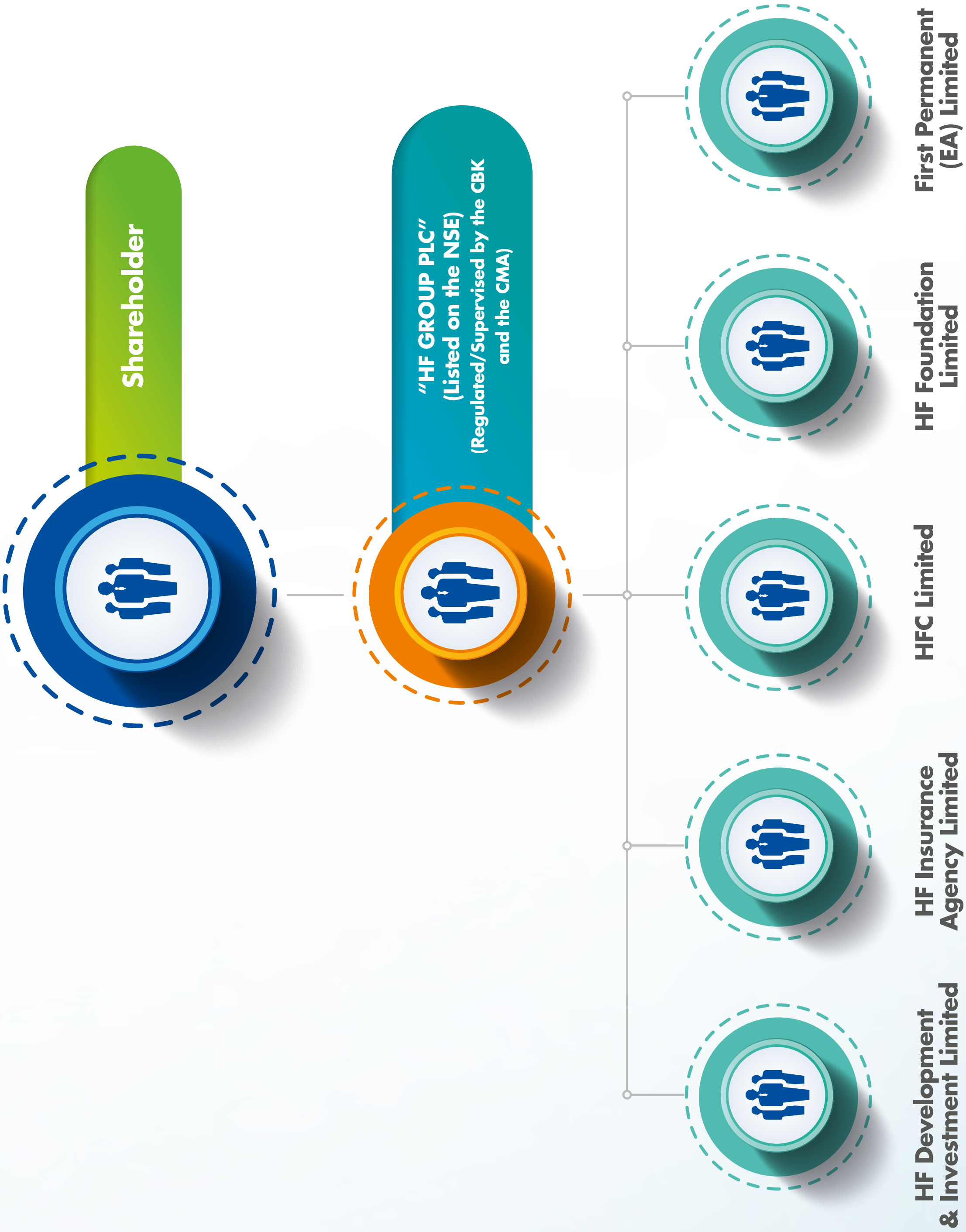
Our Vision

Where we are going

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

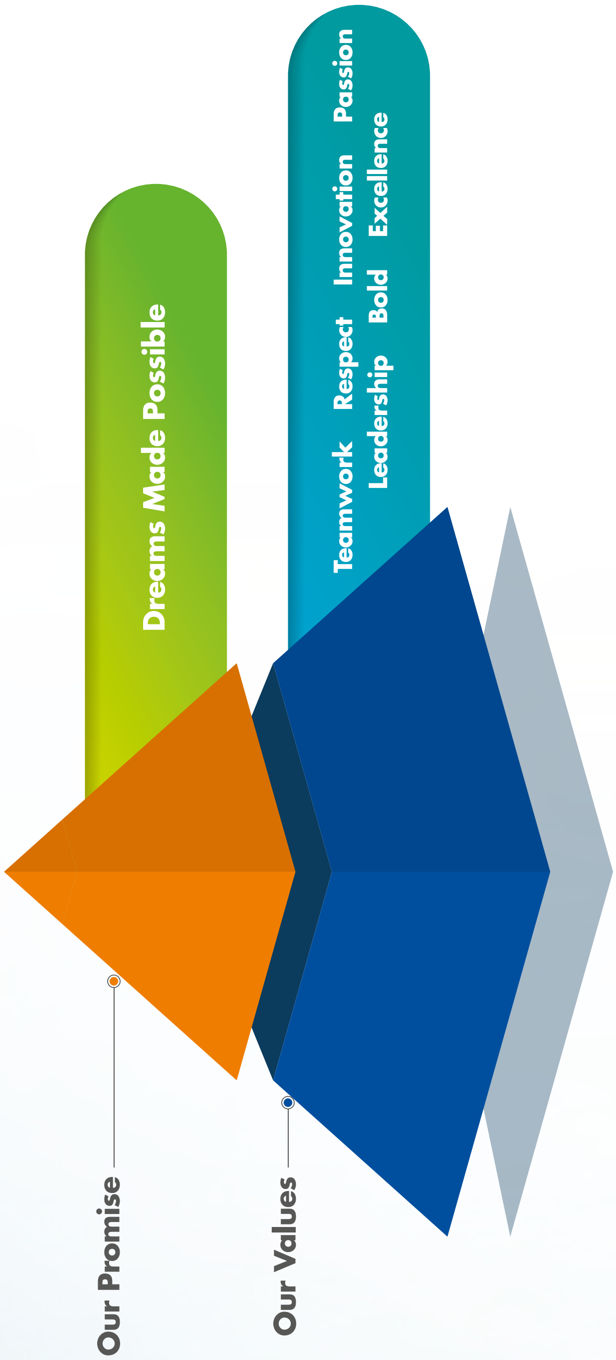
GROUP OVERVIEW (CONTINUED)

GROUP STRUCTURE



GROUP OVERVIEW (CONTINUED)

PROMISE AND VALUES



GROUP OVERVIEW (CONTINUED)

OUR TURN AROUND STRATEGY

RESTORE

A. NPL management from 28.2% (2018) to 21% to (2019) to 17% (2020)
B. Cost rationalization - 10% reduction in total cost and a cost: income ratio of 96.2%
C. Recapture mortgage leadership
D. Build retail liquidity

DEFEND

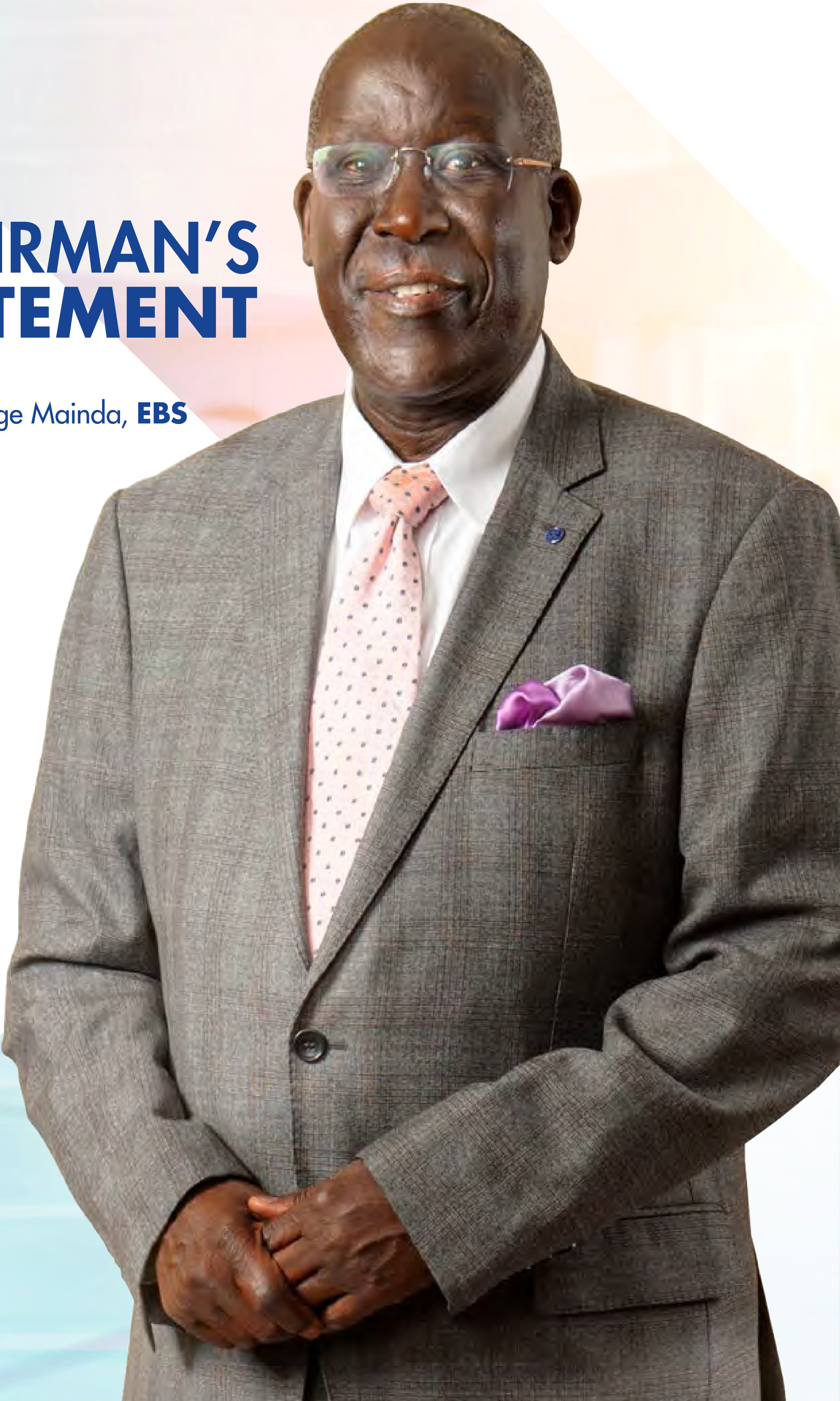
E. Improve internal efficiency
F. Significantly improve service levels
G. Build analytical and cross sell capabilities
H. Focus on deepening relationships with customers (Relationship Management)
I. Strengthen the brand

GROW

J. Radically improve sales performance
K. Expand to new banking segments: Diaspora Banking, SME Banking, Institutional Banking, Treaury as a business and Personal Banking
L. Build a digital Bank
M. Transform into a high performance organization
N. Build a direct sales driven deposit mobilization unit

CHAIRMAN'S STATEMENT

Steve Omenge Mainda, **EBS**
Chairman



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of HF Group PLC (the Group), I welcome you to the 54th Annual General Meeting of the Group. It gives me great pleasure to report that the business transformation strategy has started paying off and the Group is steadily turning around. In the year ended 31 December 2019, the Group loss before tax shrunk significantly by 79% to Kshs 137.8 million compared to Kshs 642.7 million during a similar period in 2018. During the year, the Group successfully retired its Kshs 3 billion Corporate Bond which matured on October 14, 2019. This was tranche II of the seven-year Medium Term Note issued in 2012 at a coupon rate of 13 percent. This performance is testament to the resilience of our Group and the commitment to deliver value to all our stakeholders, whilst building a business for posterity.

Industry overview

In 2019, the banking industry witnessed a record number of mergers and acquisitions driven by market forces. It is worth noting that these consolidations are necessary for the industry to remain profitable and beneficial to customers. As a business, we have no immediate plans for consolidation and will in the short to medium term remain focused on driving our turnaround strategy to achieve our vision for the business and realise value for all stakeholders.

On 7 November 2019, the President assented to the Finance Act 2019, thereby repealing the interest rate capping law that was enacted in 2016. This was seen as a welcome move by industry players. It will not only boost economic growth but also that of the banking sector. Most importantly, it will enhance the global financial inclusion agenda as more individuals and enterprises secure access to credit.

In the recent times, the industry and economy as a whole has been subjected to extraordinary stress brought about by the Covid-19 pandemic. Our way of doing business and projected performance is greatly threatened by the pandemic. But these challenges only reinforce our resolve to continue working towards the Groups' vision. Your directors and the management are continually assessing scenarios and enabling active monitoring to reduce the possible negative impact of the crisis. While it may be too early to estimate the impact of the current crisis to the performance of the Group, I am confident that we will remain resilient during and after the crisis.

As a board, we appreciate the dynamic macro and operating environment and it behoves us to steer the Group to overcome these in the most pragmatic manner that enables the business to deliver shared value. We recognize the headwinds that have faced the property development sector over the last few years and as such, your Board has made a decision to exit project development and instead focus the business on offloading the current stock of houses and bolster the business diversification into full service banking.

Government of Kenya Big Four Agenda – Affordable Housing Pillar

In 2019, in line with the Government's Big Four Agenda - Affordable Housing Pillar, the Group concentrated its efforts on enhancing credit accessibility for purchase of affordable housing. I am pleased to note that the Group has proactively been engaging with Government stakeholders and the private sector developers on strategic partnerships to make affordable housing a reality for the Kenyan middle income earners. As a result of these efforts, the Group was in December recognized by His Excellency President Uhuru Kenyatta and qualified as a strategic partner for affordable housing projects. This is a befitting recognition; given the prominent role the Group has played in empowering Kenyans to own property over the last 54 years. This is a strong heritage that we will continue to protect and reinforce in the coming years.

CHAIRMAN'S STATEMENT (CONTINUED)

Corporate Governance

As a board, we are committed to complying with the regulatory environment within which we operate and safeguarding the interests of all our stakeholders. The business has robust operational risk policies and guidelines that ensure early warning and subsequent mitigation.

We appointed a new Chair for the banking subsidiary HFC, a move informed by the need to diversify leadership and tap into new perspectives. We have also reconstituted the Board for the Bancassurance business to ensure that this business receives the appropriate oversight and support to catapult its growth.

Further, the Board is cognisant of the crucial role played by employees and external stakeholders alike in propagating good governance and preserving the integrity of the organisation. As such, we continue to enforce our whistle blowing policy as a deterrent to unethical behaviour that could put the business to disrepute.

Sustainability

We are now in our second year of sustainability reporting. In line with the Group's commitment to the ethos espoused by the sustainable Development Goals number five on gender equality, the Group became a signatory to the UN Women Empowerment Principles and launched a partnership in conjunction with the UN Women, aimed at building a diversity and inclusion program that enables women owned businesses in Kenya to benefit from the opportunities presented by the government and the private sector in the real estate value chain.

As a business we measure our success not only by our profitability but also by the impact we have on our environment and the community. The Board of Directors will therefore continue to provide the requisite oversight to the management on development of innovative products and services, whilst ensuring that high standards of business ethics and responsibility are maintained.

Conclusion

As a Board, we are grateful to the management and staff members for working painstakingly to move the business in the right trajectory. With this trend, we are optimistic that the business will fully turnaround and prosper. As a Board, we are pleased with the progress made throughout the year. All the cogs are moving appropriately and on behalf of the Board, I extend sincere gratitude to our shareholders, customers and other stakeholders for the unwavering support and contribution they have made in 2019. Finally, I would like to express my gratitude to my colleagues on the Board for their diligence, leadership and guidance. We remain committed to all our stakeholders and will continue to work diligently to build a formidable business that will stand the test of time.

Steve Mainda, EBS

Board chairman

Date: 30 March 2020

TAARIFA KUTOKA KWA MWENYEKITI

Kwa wenyehisa,

Kwa niaba ya Bodi ya wakurugenzi wa HF Group PLC (shirika), ninawakaribisha nyote kwenye Mkutano Mkuu wa 54 wa Mwaka wa shirika hili. Ni fahari kwangu kuripoti kwamba mkakati wa kufanyia mabadiliko biashara umeanza kuleta matunda na tayari shirika hili limeanza kuona manufaa ya haraka. Kwa kipindi cha Mwaka uliomalizika Desemba 31, 2019 faida ya shirika kabla ya ushuru ilishuka kwa kiwango kikubwa cha asilimia 79 na kufikia Ksh 137.8 milioni ikilinganishwa na Ksh 642.7 milioni katika kipindi sawa na hicho cha Mwaka 2018. Wakati wa kipindi hiki cha Mwaka, kampuni ilifaulu kutoa dhamana yake ya ushirika ya Ksh 3 bilioni ambayo ilikomaa mwezi Oktoba 2019. Hii ilikuwa sehemu ya pili ya Toleo la Muda wa Kadri lililofanyika mwaka wa 2012 kwa kiwango cha asilimia 13 kwa kila kuponi. Matokeo haya ni ushuhuda wa uwezo wa shirika letu na kujitolea kwake kuzalisha thamani kwa wadau wetu wote huku tunapojenga biashara kwa sababu ya kizazi kijacho.

Mustakabali wa biashara

Katika Mwaka wa 2019, sekta ya biashara ya benki ilishuhudia rekodi ya kuungana pamoja na umiliki ulioendeshwa na shinikizo la masoko. Ni vyema kufahamu kwamba miungano kama hii ni muhimu kuiwezesha biashara kudumu, pamoja na kuwafaidi wateja wake. Kama biashara, hatuna mpango wowote wa kufanya muungano wowote na kwa kipindi cha muda mfupi na wa kadri tutaelekeza mtazamo wetu katika kuendesha mkakati wetu wa kuleta mabadiliko ili kuafikia ndoto yetu kwenye biashara na kuzalisha thamani kwa wadau wote.

Mnamo Novemba 7, 2019, Rais alitia sahihi kifungu cha sheria za fedha ili kuondoa sheria za udhibiti wa kiwango cha riba kilichopitishwa mwaka wa 2016. Hii ilionekana kuwa hatua iliyokaribishwa na wadau katika biashara. Hali hii haitachochea tu ukuaji wa uchumi lakini pia sekta ya benki. Muhimu sana ni kwamba itaimarisha zaidi ajenda ya ujumuishi wa kifedha duniani kwani watu wengi na wawekezaji wataweza kufikia na kupata mikopo.

Katika kipindi cha hivi karibuni, biashara na uchumi kwa jumla zimeathirika kutokana na taharuki iliyoletwa na janga la ugonjwa wa Covid-19 ambalo halijawahi kushuhudiwa. Njia zetu za uendeshaji biashara na makadirio ya matokeo zinakabiliwa na athari ya janga hili. Lakini changamoto hizi zinaongezea nguvu azimio letu la kuendelea kufanya kazi kwa dhamira ya kutimiza ndoto ya shirika. Wakurugenzi wenu na wasimamizi wanaendelea kufanyia tathmini njia mbalimbali na zitakazopunguza athari kutokana na janga hili. Huku ikiwa ni mapema sana kukadiria athari za janga lililoko sasa kuhusiana na matokeo ya shirika, nina imani kwamba tutaendelea kuwa imara wakati na baada ya janga hili.

Kama bodi, tunatambua mabadiliko kwenye mazingira ya biashara ya kiwango cha kitaifa/kimataifa na ya uendeshaji, hivyo basi yatupasa kuelekeza shirika letu kwenye ushindi dhidi ya changamoto hii kwa njia razini inayowezesha biashara hii kufaulisha thamani ya pamoja.

Tunatambua wimbi ambalo limekabili ukuaji wa sekta ya ustawishaji wa raslimali miaka michache iliyopita na kwa sababu hiyo Bodi yenu imefanya uamuzi wa kuachana na ustawishaji wa miradi na badala yake kuangazia biashara ya kuuza nyumba zilizoko na kusaidia kupanua biashara ili kutoa huduma kamili za benki.

TAARIFA KUTOKA KWA MWENYEKITI

Ajenda Nne Kuu za serikali ya Kenya- Ajenda ya Makazi ya bei nafuu

Kufungamana na ajenda nne kuu za serikali za uwepo wa makazi ya bei nafuu, mnamo Mwaka wa 2019, shirika hili lilijishughulisha kuimarisha juhudi za upatikanaji wamikopo kwa ununuzi wa makazi kwa bei nafuu. Nina furaha kutambua kwamba shirika hili limekuwa likishirikiana na wadau serikalini na wajenzi katika sekta za kibnafsi kuhusiana na mkakati wa ushirikiano ili kutimiza ndoto ya Wakenya, wanaopata mapato ya kadri, ya kuwa na makazi kwa gharama ya chini. Kutokana na juhudi hizi, mnamo Desemba, Rais Uhuru Kenyatta alitambua shirika hili kama mshirika aliyehitimu kwenye miradi ya utoaji makazi kwa gharama nafuu. Huu ni utambuzi wa kipekee kwa kutambua wajibu ambao shirika hili limetekeleza - kuwapa uwezo Wakenya kumiliki makazi kwa kipindi cha miaka 54 iliyopita. Hii ni turathi ambayo tutaendelea kuilinda na kuiimarisha miaka inayokuja.

Usimamizi wa shirika

Kama Bodi, tumejitolea kutii masharti ya mazingira tunayotekelezea shughuli na kulinda maslahi ya wadau wetu wote. Biashara hii ina sera thabiti za kujihami na miongozo itakayohakikisha utoaji wa ishara za mapema na hatua zinazofaa kuchukuliwa.

Tuliteua mwenyekiti mpya kwa kitengo cha benki cha HFC, hatua iliyotokana na haja ya kupanua uongozi na kupata maoni mapya. Pia, tumeunda upya bodi ya wakurugenzi wa biashara ya bima kuhakikisha kuwa biashara hii inapata mwongozo unaofaa na kusaidia kuchochea ukuaji wake.

Zaidi ya hayo, bodi hii inatambua wajibu mkuu unaotekelezwa na wafanyakazi wake na wadau mbali na kuhamasisha kuhusu usimamizi bora na kulinda uaminifu wa shirika. Kwa sababu hiyo, tunaendelea kukaza sera yetu ya kufichua tabia zisizofaa ambazo zinaweza kuweka biashara katika hali isiyofaa.

Uthabiti

Kwa sasa tuko katika mwaka wa pili wa udumishajiutoaji ripoti. Kufungamana na kujitolea kwa shirika hili kwa sera zilizowekwa katika Malengo endelevu ya Ustawi (SDGs) nambari tano kuhusu usawa wa Kijinsia, shirika hili lilitia sahihi muafaka wa kanuni za Umoja wa Mataifa (UN) zinazowapa gnuvu Wanawake na kuzindua ushirikiano wa pamoja na Umoja wa Mataifa kuhusu Wanawake ambao malengo yake ni kujenga mpango wa pamoja na mpana unaowawezesha wanawake wanaomiliki biashara nchini Kenya kufaidi kutokana na nafasi zinazotolewa na serikali na sekta za kibinafsi kwenye sekta ya ujenzi wa mitaa.

Kama biashara, tunapima ufanisi wetu sio tu kupitia faida zetu bali pia athari tunazoleta kwa mazingira na jamii zetu. Kwa sababu hiyo, Bodi hii ya wakurugenzi itaendelea kutoa mchango katika mwongozo wa usimamizi kuhusiana na ubunifu wa ustawishaji bidhaa na huduma huku ukihakikisha kwamba viwango vya juu vya maadili ya biashara na uwajibikaji vinadumishwa.

TAARIFA KUTOKA KWA MWENYEKITI

Hitimisho

Kwa niaba ya Bodi,tunatoa shukrani zetu kwa usimamizi na wafanyakazi kwa kujitolea kwao kufanya kazi bila kuchoka ili kuiweka biashara kwenye mkondo unaofaa. Kupitia njia hii, tuna imani kwamba biashara itabadili mkondo na kunawiri. Kama Bodi, tunafurahia ufanisi uliopataikana katika kipindi chote cha Mwaka. Ishara zote zinaenda katika mwelekeo unaofaa na kwa niaba ya bodi, ninatoa shukrani za dhati kwa wenyehisa wetu, wateja na wadau wengine kwa mchango wao usio na kifani na msaada waliotoa katika Mwaka wa 2019. Mwisho, ningependa kutoa shukrani zangu kwa wenzangu kwenye bodi hii kwa bidii, uongozi na mwongozo wao. Tutaendelea kuwahudumia wadau wetu wote na kufanya kazi kwa bidii ili kujenga biashara imara ambayo itastahimili nyakati zote.

Steve Mainda, EBS

Mwenyekiti wa Bodi

Tarehe: Machi 30, 2020

GROUP CHIEF EXECUTIVE OFFICER'S STATEMENT

Robert Kibaara
Group Managing Director

GROUP CEO STATEMENT (CONTINUED)

Dear Shareholders,

As I reminisce on the year that was, I am filled with a deep sense of gratitude to all our stakeholders for the progress made by HF Group PLC (the Group) during the period. When I joined this great institution in December 2018, the Board of Directors tasked my team and I with the delivery of a business transformation strategy that would turn around the Group's performance within a two-year period. The bigger task was in cascading this strategy to staff members and providing clarity on their role in its execution. This strategy is underpinned by the quest to build a high performance culture that creates shared value.

Building a full service bank

HF Group has a strong heritage spanning over 54 years, as a market leader in property finance and development. However, to mitigate the concentration risk and build new engines of growth, the business is repositioning itself as a full service bank, resulting in expansion into retail banking segments and set up of new business units. These business units have been operationalized and are already making a positive contribution.

Shift from property development and growing leadership in mortgage financing

The business transformation strategy has necessitated a number of bold moves to ensure that the business is fit for purpose. At the end of 2019, the Group made a decision to divest from property development, meaning that all ongoing projects would be finalized as earlier planned, but no new property development projects would be initiated in the short term. This move was informed by the slowdown in the real estate sector. The Group continues with its strategic focus on mortgage financing, specifically in the affordable housing space. During the period we signed up memorandum of understanding (MOUs) with affordable housing developers for the financing of end user buyers as well as leveraging our expertise in property sales and marketing. These partnerships include Habitat Heights Limited the developers of 8,888 affordable housing apartments currently under construction in Lukenya, Athi River; Technofin Kenya Limited, developers of the Nairobi Urban Renewal Housing project in Pangani.

The Group has also introduced a revamped first home owners' savings plan dubbed "Nyumba Yangu" that creates a platform for aspiring home owners to save towards this goal whilst enjoying tax benefits in line with the Income Tax Act (Cap 470) of the laws of Kenya. This solution, which is also available via our digital platform HF Whizz app, is one of the initiatives that we have undertaken to empower middle income earners to achieve their dreams of home ownership.

Leveraging digital to power growth

HF Group recognizes the potential of digital in powering business growth and as such, has adopted a digital-first business model. The Group continues to enhance its HF Whizz digital platform to deliver seamless access to business products and services, simplify user experience and enable self-service capability.

As customer expectations become increasingly dynamic, it has become paramount for the business to provide products and services in an agile way. We invested in a middleware that has enabled faster roll out of products and services, with seamless user experience. One such product is our Business to Business (B2B) platform that has enabled the successful roll out of the HF Whizz digital school fees payment that enables fee payment straight from mobile phones whilst school administrators are able to view these payments in real time and carry out reconciliations.

The period also saw the business embark on a journey of digitizing business processes in order to improve on operational efficiencies and customer experience. So far we have successfully digitized fifty percent of our fifty-four business processes.

Customer at the centre

As we diversify our business offering, our drive is to attract and deepen our relationship with customers through relevant and responsive solutions that not only power their potential but also open up opportunities.

In 2019, the management team proactively engaged customers through forums aligned to the branch network. The objective was to understand customer expectations and create awareness on the business capability. The forums also served as information gathering sessions whose output plays a critical role in the business innovation. The proactive and responsive customer engagement has resulted in steady improvement in our Net Promotor Score from +3 at the end of 2018 to +39 at the end of the 2019.

GROUP CEO STATEMENT (CONTINUED)

Performance measurement

Performance is at the core of our business transformation journey. As a management team we recognize that what gets measured is what gets done, and have instituted a Strategy and Business Performance team with data analytics capability, that ensures consistent performance. This measurement is packaged in form of scorecards which now form the basis of our performance progress discussions. The effect of this is objectivity and a results oriented culture, whose impact is evident in the performance.

Financial performance

The Group performance improved significantly during the period. The performance highlights include:

- The Group loss before tax reduced by 79 percent to Kshs 137.8 million while the bank posted a loss before tax of Kshs 17.7 million which is 95% percent improvement from the FY2018 loss before tax of Kshs 381.7 million.
- The non-performing loans (NPL) reduced by one billion from Kshs 13.3 billion in 2018 to Kshs 12.3 billion in 2019. This is as a result of the aggressive debt collection initiatives as well as partnerships with customers to conduct joint marketing campaigns. Key to note is the Property Sales Campaign dubbed "Shika Nyumba na HF" which entailed up to 30 percent discounts on both HF owned and developer properties.
- Deposits grew by Kshs 2.6 billion. This growth in deposits is a reflection of the impact of our strategy to diversify into full service banking with well-defined value propositions for the chosen segments.
- Cost to income ratio improved from 109 percent in 2018 to 102 percent in 2019 on the back of balance sheet reorganization to contain costs as well as improved operational efficiency.
- Non funded income grew by 6% from Kshs 1.3 billion to Kshs 1.4 billion. This is attributable to the full year effect of the revenues from the Group's digital channels.

Building a staff complement to deliver growth

To deliver on the business transformation strategy, we have invested in our employees as they are the team tasked with the execution of the business objectives. The focus on digital and building a full service bank necessitated the recruitment of staff members with the requisite skill sets to drive these new business units. However, the bulk of the efforts have gone towards upskilling the existing staff with relevant role based and leadership capabilities. Thirty employees were promoted to new roles whilst the frontline staff increased to 64 percent of the entire employee complement, compared to 33 percent in the previous year. During the period, the Executive Management composition was reorganized to align with the business strategy.

Looking ahead

The COVID -19 pandemic has resulted in global economic slump and this is predicted to have adverse effects on earlier predicted economic growth. This economic slowdown is projected to side track performance across different sectors including the banking industry where we have already seen many of our customers significantly impacted as a result of the pandemic. As a Group, our focus is to ensure that the business weathers this storm and also supports our stakeholders, particularly the affected customers. We will continue to collaborate with our regulators and the Government to ensure that we play our role in beating the pandemic and rebuilding the Kenyan economy.

Robert Kibaara

Group Chief Executive Officer

Date: 30 March 2020

TAARIFA KUTOKA KWA AFISA MKUU MTENDAJI

Kwa wenyehisa,

Huku nikitafakari kuhusu Mwaka uliopita, nimejawa na shukrani kwa wadau wetu wote kutokana na hatua zilizofanywa na HF Group PLC (Shirika) wakati wa kipindi hiki. Wakati nilipojiunga na taasisi hii mwezi Desemba Mwaka wa 2018, Bodi ya wakurugenzi ilinipa mimi na kikosi changu wajibu wa kubuni mkakati wa mabadiliko ambao ungebadili matokeo ya shirika kwa kipindi cha miaka miwili. Wajibu mkuu ulikuwa kutangaza mkakati huu kwa wafanyakazi na kutoa ufafanuzi kuhusu wajibu wao wakati wa utekelezaji wake. Mkakati huu unaendeshwa na haja yetu ya kubuni desturi thabiti ambayo italeta thamani.

Kujenga benki inayohudumu kikamilifu

HF Group ina desturi thabiti ya zaidi ya miaka 54 kama kiongozi kwenye soko la ufadhili wa ardhi, ujenzi na maendeleo. Hata hivyo, ili kupunguza athari za pamoja na kuleta nguvu mpya za ukuaji, biashara hii inajiweka katika nafasi ya kipekee kama benki inayotoa huduma kamili na kusababisha kupanuka kwa kitengo cha huduma za rejareja na kuweka vitengo vipya vya biashara mpya. Vitengo hivi vipya vya biashara vimekuwa vikitoa huduma na mchango wenye kuleta manufaa.

Mabadiliko kwenye ustawishaji ardhi na nyumba na kupanua uongozi katika utoaji mikopo ya ujenzi wa makazi

Mabadiliko katika mkakati wa biashara hii yamepelekea kuchukuliwa kwa baadhi ya hatua ili kuhakikisha kwamba imejiandaa vyema kutekeleza wajibu wake. Kufikia mwisho wa Mwaka 2019, shirika hili lilichukua hatua ya kufanya mabadiliko kutoka kwa ustawishaji wa ardhi na nyumba, hii ikiwa na maana kwamba miradi yote iliyokuwa ikiendelea ingekamilishwa mapema kama ilivyokuwa imeratibiwa lakini pasiwepo ujenzi mpya wa makazi ambao ungeanza kwa kipindi kifupi. Hatua hii ilitokana na kupungua kwa kasi katika sekta ya ujenzi wa makazi. Kampuni hii inapiga hatua mbele katika mkakati wake wa kutoa mikopo ya ujenzi wa nyumba hasa kwenye jukwaa la makazi ya gharama ya chini. Wakati wa kipindi hiki tulitia sahihi mkataba wa maelewano (MOU) na wastawishaji wa nyumba kwa gharama nafuu ili kuwapa ufadhili wanunuzi pamoja na kuonyesha ujuzi wetu kwenye mauzo ya makazi na uvumishaji wake. Ushirikiano huu unahusu kampuni ya Habitat Heights Limited ambayo ni mjenzi wa vyumba 8,888 vya ghrama nafuu vinavyoendelea kujengwa eneo la Lukenya, Athi River, pamoja na Technofin Kenya Limited ambayo ni mjenzi wa mradi wa makazi ya bei nafuu eneo la Pangani jijini Nairobi (Nairobi Urban Renewal Housing Project).

Kadhalika, shirika hili limezindua mpango wa uwekaji akiba kwa wamiliki wa kwanza wa nyumba unaojulikana kama 'nyumba yangu', ambao unatoa nafasi kwa wanaotaka kuwa na makao yao, kuanza kuweka akiba ili kutimiza lengo lao hilo huku wakifurahia manufaa ya kutokatwa ushuru kufungamana na kifungu (Cap 470) cha sheria za Kenya za ushuru wa mapato. Azimio hili ambalo pia linapatikana kupitia mtandao wetu wa kidijitali wa HF Whizz App ni mmojawapo wa mikakati ambayo tumebuni ili kuwapa uwezo wanaopata mapato ya chini kutimiza ndoto yao ya kumiliki makazi.

Kusawazisha mfumo wa dijitali ili kuchochea ukuaji

Shirika hili linatambua umuhimu wa dijitali katika kuchochea ukuaji wa biashara, na kwa sababu hiyo limeanzisha matumizi ya mfumo wa hali ya juu wa kidijitali. Shirika hili linazidi kuimarisha matumizi ya mfumo wake wa kidijitali wa HF Whizz kuwezesha kufikia bidhaa na huduma zake za kibiashara kwa njia ya mtandao, kurahisisha huduma kwa watumizi na kufanikisha uwezo wa kujihudumia kibinafsi.

Huku matarajio ya wateja yakiendelea kubadilika, imekuwa lazima kwa biashara hii kubuni bidhaa na huduma kwa njia ya haraka. Tuliwekeza kwenye mfumo wa mtandao ambao umeharakisha utoaji wa huduma na bidhaa kwa wateja kupitia mtandao. Mojawapo ya huduma kama hizo ni mfumo wetu wa Business to Business (B2B) ambao umefanikisha kuanzishwa kwa mfumo wa HF Whizz digital kwa ulipaji wa karo za shule moja kwa moja kutoka kwa simu huku wasimamizi wa shule wakiweza kuona malipo haya moja kwa moja na kuoanisha mizania..

Kipindi hiki pia kilishuhudia biashara ikirejelea safari ya hatua za kuweka biashara katika mfumo wa kibiashara kwa dhamira ya kuimarisha ubora wa kutoa huduma na kumridhisha mteja. Hadi sasa, tumefanikiwa kuhamisha asilimia hamsini huduma zetu hamsini na nne hadi kwa mfumo wa kidijitali.

TAARIFA KUTOKA KWA AFISA MKUU MTENDAJI

Umuhimu wa Mteja

Huku tunapopanua huduma za biashara, lengo letu ni kuvutia na kuzidisha ushirikiano wetu na wateja kupitia kwa suluhu zinazofaa na pendelevu ambazo mbali na kuupa nguvu uwezo wao, pia zinafungua nafasi mpya.

Mwaka wa 2019, kikosi cha usimamizi kilishirikisha wateja kupitia mikutano ambayo iliunganishwa na mtandao wetu. Madhumuni yake yalikuwa kufahamu matarajio ya wateja na kuleta ufahamu kuhusu uwezo wa kibiashara. Mikutano hii ilijitwikaa jukumu la kukusanya maelezo ambayo mchango wake hutekeleza wajibu mkubwa kwenye ubunifu wa kibiashara. Ushirikishi wa wateja umepelekea kuimarika kwa haraka kutoka kwenye kigezo cha alama +3 mwishoni mwa mwaka 2018 na kufikia +39 mwishoni mwa 2019.

Upimaji wa matokeo

Matokeo ni kigezo muhimu cha kufanyia mabadiliko safari ya biashara yetu. Kama kikosi cha usimamizi, tunatambua kwamba kile kinachopimwa ndicho kinachotekelezeka na tumekipa kikosi cha kutathmini mkakati na matokeo ya biashara uwezo wa uchambuzi wa data ambao utahakikisha uthabiti wa matokeo kila wakati. Upimaji huu umeratibiwa kwa njia ya alama ya matokeo ambayo kwa sasa inaunda msingi wa majadiliano ya maendeleo ya biashara yetu. Matokeo ya athari ya usawa huu na desturi iliyohimizwa yanaonekana kupitia kwa matokeo.

Matokeo ya kifedha

Matokeo ya shirikahili yaliimarika kwa kiwango kikubwa wakati wa kipindi hiki. Vidokezo vya matokeo vinahusu:

- Hasara ya kundi kabla ya kutozwa ushuru ilipungua kwa asilimia 79 % hadi Ksh 137.8 milioni huku benki ikisajili hasara kabla ya kutozwa ushuru ya Ksh 17.7 milioni ambayo ilikuwa imariko la asilimia 95 ukilinganisha na hasara kabla ya kutozwa ushuru ya Ksh381.7 milioni katika kipindi cha Mwaka 2018.
- Mikopo isiyolipwa (NPL) ilipungua kwa Shilingi bilioni moja kutoka Ksh 13.3 milioni mwaka 2018 hadi Ksh12.3 milioni katika mwaka wa 2019. Hii ilitokana na mikakati ya kukusanya mikopo pamoja na ushirikiano na wateja kutekeleza kampeni za pamoja za uvumishaji. La muhimu kufahamu ni kampeni ya mauzo kwa jina 'Shika Nyumba na HF'' ambayo inatoa punguzo la hadi asilimia 30 % kwa bidhaa zinazomilikiwa na HF na rasilimali za wajenzi.
- Uwekaji pesa katika benki (akiba) uliimarika kwa Ksh 2.6 bilioni. Uimarikaji huu katika akiba ni ishara ya athari ya mkakati wetu wa upanuzi hadi kufikia huduma kamili za benki yenye thamani bainifu kwa makundi ya wateja wetu.
- Ngawira ya gharama na mapato iliimarika kutoka kwa asilimia 109 katika mwaka wa 2018 hadi asilimia 102 katika mwaka wa 2019 kutokana hasa na uoanishaji bora wa mabuku ya kifedha/mizania ili kujumuisha gharama, pamoja na uendeshaji ulioboreshwa.
- Mapato yasiyofadhiliwa yaliimarika kwa asilimia 6 kutoka Ksh1.3 bilioni na kufikia Ksh1.4 bilioni. Matokeo haya yalitokana na athari za mwaka mzima za mapato kutoka mitandao ya kidijitali ya shirika.

TAARIFA KUTOKA KWA AFISA MKUU MTENDAJI

Kuimarisha uwezo wa wafanyakazi ili kuzalisha matokeo bora

Ili kufanikisha mkakati wetu wa mabadiliko ya kibiashara, tumewekeza kwenye wafanyakazi wetu kwani ndio kikosi kilichopewa jukumu la kutekeleza malengo ya biashara. Mkakati kuhusu dijitali na kuwa na benki inayotoa huduma kamili, ulipelekea kuajiriwa kwa maafisa walio na ujuzi unaohitajika ili kufanikisha vitengo hivi vipya vya biashara. Hata hivyo, juhudi kubwa zimeelekezwa katika kuwapa uwezo maafisa walioko ili kuwapa ujuzi unaofaa na uwezo wa usimamizi. Maafisa thelathini walipandishwa ngazi ili kutekeleza majukumu mapya huku wahudumu wa mbele wa benki wakiongezeka hadi asilimia 64 ya jumla ya wafanyakazi wote ikilinganishwa na asilimia 33 katika mwaka uliotangulia. Wakati wa kipindi hiki, usimamizi wa juu ulifanyiwa mabadiliko ili kulingana na mkakati wa biashara.

Mustakabali wa biashara

Janga la COVID-19 limepelekea kushuka kwa uchumi wa dunia na hali hii inatarajiwa kuleta athari kwa ukuaji wa uchumi kama ilivyokadiriwa hapo awali. Kushuka kwa kasi kwa uchumi kunatarajiwa kuathiri matokeo katika sekta mbalimbali ikiwemo benki ambapo tumeona wateja wetu wengi wakiathirika sana kutokana na janga hili. Kama shirika, mtazamo wetu ni kuhakikisha kwamba biashara inastahimili dhoruba hii na pia kuwasaidia wadau wetu hasa wateja walioathirika. Tutaendelea kushauriana na wasimamizi wetu pamoja na serikali kuhakikisha kwamba tunatekeleza jukumu letu la kupambana na janga hili na kujenga tena uchumi wa Kenya.

Robert Kibaara

Afisa Mkuu Mtendaji

Tarehe: Machi 30, 2020

PICTORIAL OF 2019 ACTIVITIES

Charles Hinga, Principal Secretary, State Department of Housing and Urban Development addresses participants during the HF Group SME forum

HF Group CEO poses with UN Women representative Banu Khan after HF Group became a signatory of the UN Women Empowerment Principles, and champion for the financial inclusion for women in business

HF Group CEO Robert Kibaara and Habitat Heights Chairman Maheshwaran Suresh Kumar, after signing MOU for sales and marketing of the Development

HF Group CEO Robert Kibaara briefing real estate agency representatives during the launch of Shika Nyumba Property Sales Campaign

HF Group CEO Robert Kibaara, and the Group Chairman Dr. Steve Mainda pose with customers during the Annual Chairman's Customer Appreciation event

HF Group Company Secretary & Director, Legal, Regina Anyika (2nd L) and Richland Dam Limited Chairman Stephen Njoka, pose with home owners during the handover ceremony for Richlande Pointe.

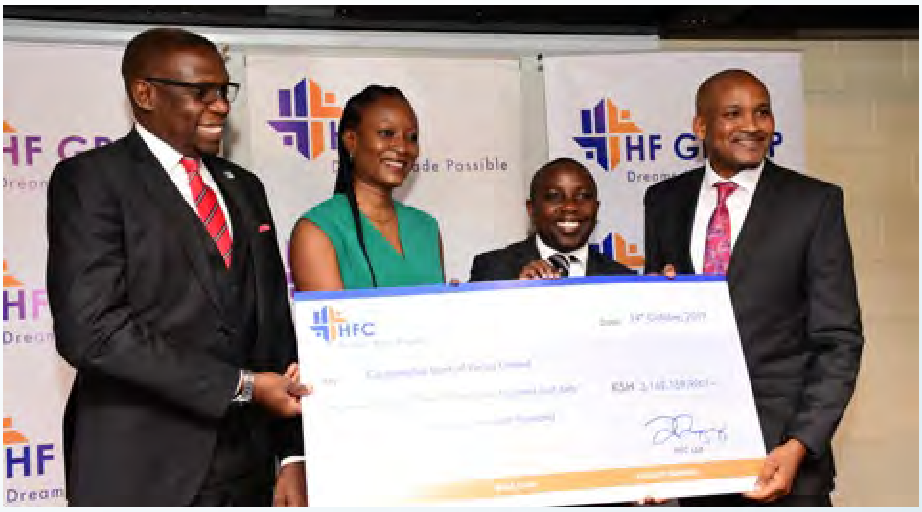
HF Group Head of Mortgage Business Joseph Kamau makes a presentation during a cermony to mark a partnership that will see Safaricom install home fibre in all HF Developments

PICTORIAL OF 2019 ACTIVITIES

H.E President Uhuru Kenyatta poses with Government officials and Board Members of Kenya Mortgage Refinace Company during the launch event where HF Group CEO was amongst the appointed board members.

Participants follow proceedings during the HF SME Forum held in Nairobi

The Group CEO and Board Members follow proceeedings during the Kes 3 Billion Corporate Bond repayment ceremony



The Group CEO presents a dummy cheque to Nairobi Securities Exchange MD Geoffrey Odundo and representatives from the Bond Trustee and Registrar during the Kes 3 Billion Corporate Bond repayment event.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REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements for the year ended 31 December 2019 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. Results and appropriations

	2019 Kshs'000	2018 Kshs'000
Gross income	**6,532,222**	**7,364,578**
(Loss)/profit before taxation		
HF Group Plc	(44,567)	(97,024)
HFC Limited	(16,980)	(381,724)
HF Development and Investments Limited	(93,043)	(172,970)
First Permanent (East Africa) Limited	522	279
HF Foundation	(1,979)	(7,241)
HF Insurance Agency Limited	18,245	15,936
Group loss before taxation	**(137,802)**	**(642,744)**
Taxation	27,694	44,526
(Loss) after taxation	**(110,108)**	**(598,218)**
Retained profit and available-for-sale reserves brought forward	1,286,506	3,663,988
	1,176,398	3,065,770
Dividends –paid/proposed	-	(3)
Bonus share issue	-	(174,788)
IFRS 15 Adjustment, net of tax	-	(118,498)
IFRS 9 Adjustment, net of tax	-	31,933
IFRS 15 day 1 impact on joint venture, net of tax (Kahawa Downs Limited)	-	(31,508)
IFRS 16 Adjustment, net of tax	(91,877)	-
Change in fair value of available for sale investments net of taxes	72,973	42,265
Transfer to statutory reserve	(782,580)	(1,528,665)
Retained profit and available for sale reserves carried forward	**374,914**	**1,286,506**

REPORT OF THE DIRECTORS (CONTINUED)

3. Dividend

The Directors recommend a final dividend payment of Kshs Nil (2018 – Nil). No interim dividend was paid in 2019 and 2018. The total dividend for the year is therefore Kshs Nil per share (2018 – Nil), amounting to a total of Kshs Nil (2018 – Nil).

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 4.

5. Business overview

Performance highlights

During the period, the Group reported loss after tax of Kshs 110.1 million (2018 – loss after tax of Kshs 598.2 million). Interest income earned during the year was Kshs 5.1 billion (2018 – Kshs 6.05 billion), while the interest expense incurred during the year was Kshs 3.1 billion (2018 – Kshs 3.8 billion). The net loan book closed at Kshs 38.8 billion compared to Kshs 43.4 in 2018. The non-performing loans (NPL) reduced by one billion from Kshs 13.3 billion in 2018 to Kshs 12.3 billion in 2019. Deposits grew by Kshs 2.6 billion to close at Kshs 37.9 billion. Cost to income ratio improved from 109 percent in 2018 to 102 percent in 2019, while non funded income grew by 6% from Kshs 1.3 billion to Kshs 1.4 billion.

The year 2019 experienced adverse macro-economic conditions especially reduced credit supply in the real estate sector which contributed slow uptake of houses ready for sale. During the year, the interest rate capping law was repealed and the move is expected to spur economic growth especially the small and medium enterprises. As a business, HF Group will focus on diversifying incomes streams and increasing operating efficiencies so as to deliver value to the shareholders. In this endeavour, the bank rolled a digital banking platform (Whizz) which will boost the non interest income for the bank. In endeavour to achieve the improved performance, the Board and management have formulated the turnaround strategy for years 2019 and 2020 which will propel the Group to overcome the prevailing challenges on liquidity, non-performing loans and profitability. The implementation of this strategy is currently underway.

During the year, the group successfully redeemed Kshs 3 billion corporate bond which was issued in October 2012. The bond had a tenor of 7 years with a coupon of 13%.

Principal risks and uncertainties

The Group's principal risks that are inherent in the banking business include credit, market, liquidity, operational, reputational, compliance, conduct, information security & cyber security, financial crime and money laundering. These risks are managed by implementing mitigants at all levels of the business. The group has clear reporting lines for identification of the risks. Employees are continually trained and informed on the risks, the impacts and how the organisation manages these events. Policy and manuals are available to guide the entity on any eventuality and are reviewed periodically. All employees are expected to uphold high levels of ethics by being honest and transparent while disclosing all types of risk. Key lessons and experiences are documented and where applicable adopted in the guiding policies and procedures.
The principal risks and uncertainties facing the Group and Company as well as the risk management framework are outlined in Note 4 of the consolidated and separate financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

5. Business overview (continued)

Future outlook

The Covid-19 pandemic is now gaining ground in Kenya and is expected to impact the Group's operations and the way of doing business. In spite of the pandemic's adverse effects, the Group is focusing on ensuring that the business weathers this storm and also supports our stakeholders, particularly the affected customers.

We will continue to collaborate with our regulators and the Government to ensure that we play our role in beating the pandemic and rebuilding the Kenyan economy. The directors are confident that the Group is well positioned to overcome the challenges and deliver value to its stakeholders.

Environmental, social and employee matters

Our environmental and social risk policy, guides our commitments to environmental protection across all group subsidiaries. The Group views environmental sustainability from two perspectives:

1. We conduct business in a manner that protects our employees, the communities where we operate and the environment; and
2. We offer products and services that deliver efficiency contributing to an overall reduction in the usage of natural resources.

The environmental and social risk policy has been incorporated into our lending process and is aligned with recognised international performance standards. Our loan applications therefore include, among other issues, an environmental assessment and are in compliance with regulatory requirements.

The Group remains proactive and progressive in its human resources policies and programs and is committed to creating an outstanding place to work and build a career. As part of our corporate philosophy, the Group strives to maintain the health and safety of our employees, customers and neighbours. Our objective is to have zero accidents and zero harm in workplaces.

The Group has also taken several measures to ensure safety of employees and the continuity of operations during the Covid-19 pandemic. These include work-from-home arrangements, social distancing within the workplace, abolishment of physical meetings, provision of hand sanitizers and face masks as well as temperature screening at all entry points.

6. Auditor

The auditor in office during the year and until the next Annual General Meeting is KPMG Kenya.

7. 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 auditor is 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 auditor is aware of that information.

8. Approval of financial statements

The financial statements set out on pages 83 to 189 were approved and authorised for issue at a meeting of the directors held on 30 March 2020.

BY ORDER OF THE BOARD

Regina Anyika

Company Secretary

Date: 30 March 2020

RIPOTI YA WAKURUGENZI

Walurugenzi wana furaha kutoa ripoti yao ya pamoja pamoja na taarifa zilizojumuishwa pamoja au za kando za matumizi ya pesa kwa kipindi cha Mwaka uliomalizika Desemba 31,2019 ambazo zinafichua hali ya shughuli za 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, kujenga na kuuza nyumba za kuishi na uwakala wa biashara za bima pamoja na uwekezaji wa kijamii.

2. Matokeo na Makadirio

	2019	2018
	KShs'000	KShs'000
Mapato kwa Jumla	**6,532,222**	**7,364,578**
(Hasara)/faida kabla ya ushuru		
HF Group Plc	(44,567)	(97,024)
HFC Limited	(16,980)	(381,724)
HF Development and Investments Limited	(93,043)	(172,970)
First Permanent (East Africa) Limited	522	279
HF Foundation	(1,979)	(7,241)
HF Insurance Agency Limited	18,245	15,936
Hasara ya kundi kabla ya ushuru	**(137,802)**	**(642,744)**
Ushuru	27,694	44,526
(Hasara) Baada ya ushuru	**(110,108)**	**(598,218)**
Faida iliyohifadhiwa na iliyo tayari kuuzwa na hazina zilizowasilishwa	1,286,506	3,663,988
	1,176,398	**3,065,770**
Mgawo wa faida uliolipwa/uliopendekezwa	-	(3)
Swala kuhusu marupurupu	-	(174,788)
IFRS 15 mabadiliko ya ushuru kwa jumla	-	(118,498)
IFRS 9mabadiliko ya ushuru kwa jumla	-	31,933
Athari za IFRS 15 day 1 kwa joint venture, ushuru kwa jumla (Kahawa Downs Limited)	-	(31,508)
IFRS 16 mabadiliko ya ushuru kwa jumla	(91,877)	-
Mabadiliko ya thamani kwa raslimali zilizoko		
kwa madhumuni ya kuuzwa na ushuru kwa jumla	72,973	42,265
Kuhamishwa kutoka hazina ya kisheria	(782,580)	(1,528,665)
Faida iliyohifadhiwa na iliyoko kwa madhumuni ya mauzo iliyowasilishwa mbele	**374,914**	**1,286,506**

3. Mgawo wa faida

Wakurugenzi wanatoa pendekezo la malipo ya mgawo wa faida wa mwisho wa Ksh 0 (2018- 0). Hakuna malipo ya awali ya mgawo wa faida yaliyotolewa mwaka 2019 na 2018. Kwa sababu hiyo, jumla ya mgawo wa faida kwa kipindi cha mwaka ni Kshs.0 kwa kila hisa (2018-0) na kuwa jumla ya Kshs.0 (2018-0)

4. Wakurugenzi

Wakurugenzi waliohudumu wakati wa kipindi hiki cha mwaka hadi tarehe ya ripoti hii wameangaziwa kupitia ukurasa wa nne wa ripoti hii.

5. Mtazamo wa Biashara

Vidokezo vya matokeo

Wakati wa kipindi hiki, kundi liliripoti hasara kabla ya ushuru ya Kshs.milioni 110.1 (2018 hasara baada ya ushuru ya Kshs.milioni 598.2). Mapato ya riba yaliyopatikana kipindi hiki cha Mwaka yalikuwa Kshs.bilioni 5.1 (2018 ilikuwa Kshs bilioni 6.05) huku gharama za riba zilizotumika wakati wa kipindi cha mwaka zikiwa Kshs.bilioni 3.1 (2018 zilikuwa Kshs. bilioni 3.8) hesabu ya mikopo ilifunga kwa Kshs.bilioni 38.8 ikilinganishwa na Kshs.43.4 mwaka 2018. Kiwango cha mikopo isiyolipika (NPL) kilipunguka kwa bilioni moja kutoka Kshs.bilioni 13.3 mwaka 2018 na kufikia Kshs.bilioni 12.3 mwaka 2019. Akiba iliongezeka kwa kiwango cha Kshs.bilioni 2.6 na kufunga kwa Kshs.bilioni 37.9. Gharama za uwiano wa mapato ziliimarika kutoka asilimia 109 % mwaka 2018 hadi asilimia 102% mwaka 2019 huku mapato yasiyofadhiliwa yakiimarika kwa asilimia 6% kutoka Kshs.bilioni 1.3 na kufikia Kshs.bilioni 1.4.

Mwaka 2019 ulishuhudia hali mbaya ya chumi ndogo hasa kupunguka kwa utoaji wa mikopo kwenye sekta ya mitaa iliyopelekea kupungua kwa kasi ya ununuzi wa nyumba zilizokamilika. Wakati wa kipindi hiki cha mwaka, sheria ya uthibiti wa viwango vya riba iliondolewa hatua inayotarajiwa kuchochea ukuaji wa uchumi hasa katika biashara ndogo ndogo na za kadri. Kama biashara, kundi la HF litaangazia upanuzi wa njia za mapato na kuongeza mbinu za utekelezaji ili kuleta thamani kwa wanahisa. Kwa kujitolea huku, benki ilizindua jukwaa la kijiditeli kwa jina (Whizz) ambalo litainua mapato yasiyo na riba kwa benki. Ili kupata imariko la mapato, halmashauri na usimamizi zimeanzisha mkakati wa kuleta mabadiliko wa miaka ya 2019 na 2020 ambao utasaidia kundi kustahimili changamoto zinazotokea kuhusiana na mtaji, mikopo isiyolipika na faida. Uzinduzi wa mkakati huu ungali unaendelea.

Wakati wa kipindi hichi cha mwaka, kundi lilifaulu kuachilia dhamana ya shirika ya Ksh.bilioni ambayo ilitolewa mwezi Oktoba 2012. Dhamana hii ilikuwa ya miaka 7 na ilikuwa na kuponi ya asilimia 13%.

Hatari kuu na matukio yasiyotarajiwa

Hatari kuu zinazokabili kundi zinazofungamana na biashara ya benki ni pamoja na mkopo, soko, mtaji , utekelezaji, sifa, uzingatiaji masharti, tabia, maelezo ya usalama na uhalifu kupitia mitandao, uhalifu wa pesa na ulanguzi wa fedha, Hatari hizi zinaweza kuzuiwa kwa kuzindua hatua za kuzipunguza katika taratibu zote za biashara. Kundi lina taratibu zake wazi za kuripoti utambuzi wa hatari. Wafanyakazi wanazidi kupewa mafunzo na ufahamu kuhusu hatari, athari zake na jinsi shirika linavyokabiliana na matukio kama haya. Sera na makatarasi yenye maelezo zinapatakina ili kutoa mwongozo kuhusu swala lolote na hufanyiwa tathmini za mara kwa mara. Wafanyakazi wote wanatarajiwa kuzingatia viwango vya juu vya maadili na kuwa waaminifu na wazi wanapotoa maelezo yoyote yanayohusiana na hatari. Mafunzo muhimu na matukio yamenukuliwa na pale inapohitajika kushirikishwa kwenye sera za utoaji mwongozo na taratibu.

Hatari kuu na matukio yasiyotarajiwa yanayokabili kundi na kampuni pamoja na muundo wa usimamizi kukabiliana na athari yameelezwa kupitia dokezo la 4 kwenye taarifa zilizojumuishwa pamoja na za kando za kifedha.

RIPOTI YA WAKURUGENZI

5. Mtazamo wa Biashara (Kuendeleza)

Mtazamo wa siku za usoni

Janga la Covid-19 linaendelea kusambaa nchini Kenya na linatarajiwa kuathiri shughuli za kundi na njia za utekelezaji biashara. Licha ya athari za janga hili, kundi linaangazia kuhakikisha kwamba biashara zinastahimili dhoruba hii na pia kuwasadia washika dau wetu hasa wateja walioathirika.

Tutaendelea kushirikiana na wasimamizi wetu na serikali kuhakikisha kwamba tunatekeleza jukumu letu kupambana na janga hili na kujenga uchumi wa Kenya. Wakurugenzi wana imani kwamba kundi limejiweka kwenye nafasi nzuri kukabiliana na changamoto na kuzalisha thamani kwa washika dau wake.

Mazingira, jamii na maswala ya wafanyakazi

Mainzigira yetu na sera za athari katika jamii zinatoa mwongozo kwa uwajibikaji wetu kuhusu utuzaji mazingira katika washirika tanzu wote wa kundi. Kundi linaangazia udumishaji mazingira kwa njia mbili.

1. Tunaendesha biashara kwa njia ambayo inawalinda wafanyakazi wetu, jamii iliyoko mahali tunapoendesha shughuli zetu, mazingira na
2. Tunatoa bidhaa na huduma zinazoleta ufanisi na kuchangia pakubwa kupunguza matumizi ya malighafi.

Sera ya mazingira na hatari za jamii zimejumuishwa pamoja katika hatua zetu zinazoongoza na imewekwa sawa na uwiano na viwango vya matokeo vya kimataifa. Kwa sababu hiyo , maombi yetu ya mikopo yanahusu miongoni mwa maswala mengine, tathmini ya mazingira na kwamba yanaafikiana na taratibu za usimamizi.

Kundi lingali linawajibikia kikamilifu uendelevu kwenye sera zake za mipango ya usimamizi wa maslahi ya wafanyakazi na limejitolea kuandaa mazigira muafaka kufanyia kazi na kuinua taaluma. Kama sehemu moja ya filosofia ya ushirika, kundi linajitahidi kudumisha afya na usalama wa wafanyakazi wake wote , wateja na majirani. Madhumuni yetu ni kuondoa kabisa ajali na madhara mahali pa kazi.

Kundi limechukua hatua mbali mbali kuhakikisha usalama wa wafanyakazi na kuendelea kwa shughuli wakati wa kipindi cha janga la COVI-19. Hii inahusu mipango ya kutekeleza shughuli za kazi nyumbani, kudumisha umbali baina ya mtu na mwingine mahali pa kazi, kufutilia mbali mikutano ya pamoja, kutoa vitakasa mikono na barakoa pamoja na vipima joto maeneo yote ya viingilio.

6. Wakaguzi wa pesa

Wakaguzi wa pesa waliohudumu kipindi hiki cha mwaka na hadi mkutano ujao wa pamoja wa mwaka ni KPMG Kenya.

7. Maelezo muhimu kuhusu ukaguzi wa pesa

Wakurugenzi wanaohudumu kipindi hiki cha tarehe hii wanakikisha kwamba:

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

8. Kuidhinishwa kwa taarifa za matumizi ya pesa

Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 83 hadi 189 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika Machi 30, 2020

KWA AMRI YA HALMASHAURI

Regina Anyika

Katibu wa Kampuni

Tarehe : Machi 30,2020

DIRECTORS' REMUNERATION REPORT

HF Group Plc (the "Group") is pleased to present the Directors' remuneration report for the year ended 31 December 2019. 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 each 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:

Dr. Steve O Mainda	Chairman
Robert Kibaara	Group Chief Executive Officer
Dr. Kaushik Manek	
Dr. Benson Wairegi	
Dr. Peter K Munga	
Adan D Mohamed	
Constance Gakonyo	
Felister Kembi	
Gladys Karuri	

There has been no change to the rate of remuneration for the non-executive directors during the year.

Directors' remuneration paid during the year

Non- executive directors

Name	2019 Kshs'000 Fees	Sitting allowance	Total	2018 Kshs'000 Fees	Sitting allowance	Total
Dr. S.O. Mainda	4,956	-	4,956	4,847	-	4,847
Dr. Benson Wairegi, EBS	488	1,560	2,048	488	1,664	2,152
Dr. Peter K Munga	488	1,028	1,516	488	936	1,424
Adan D Mohamed	648	1,664	2,312	648	1,248	1,896
Constance Gakonyo	488	1,196	1,684	488	1,300	1,788
Dr. Kaushik Manek	3,778	626	4,404	488	1,248	1,736
Felister Kembi	488	936	1,424	488	780	1,268
Gladys Karuri	488	988	1,476	488	728	1,216
	11,822	7,998	19,820	8,423	7,904	16,327

Executive Director Robert Kibaara (2018: Frank Ireri)	2019 Kshs'000	2018 Kshs'000
Basic pay	39,043	44,105
Non-cash benefits	2,072	6,247
Gratuity	9,000	13,787
Total	**50,115**	**64,139**

DIRECTORS' REMUNERATION REPORT (CONTINUED)

The basic pay and gratuity of the executive director is as per negotiated employment contract. Other non-cash benefits include club subscription, security and medical cover. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing HF Group official duties are reimbursed. This ensures the package is competitive.

Aggregate loans to directors and senior management amounted to Kshs 158,054,298. 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 judgment 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 directors' 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 IFRSS.

BY ORDER OF THE BOARD

Regina Anyika

Company Secretary

Date: 30 March 2020

CORPORATE GOVERNANCE

HF Group Plc (the "Group") is committed to good corporate governance practices to achieve effective and responsible leadership characterised by ethical values of responsibility, accountability, fairness and transparency. Board and management have ensured compliance with the Central Bank guidelines on corporate governance (CBK/PG/02), Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 and internationally accepted principles and best practices in corporate governance. We consistently review these practices to ensure that the best interests of our stakeholders are always acted upon.

HF Group board approved a corporate governance policy detailing the key corporate governance practices applicable to the group as well as all main subsidiary companies. The policy sets out the Corporate Governance Framework for guidance to the Board and management by defining key responsibilities as well as ethical standards expected of them.

1. The Board of directors

The board has ultimate accountability and responsibility for the performance and affairs of the group by providing leadership and strategic guidance to sustainably safeguard stakeholders' value. The HF Group Plc board has the following responsibilities:

- Approving the group strategy and continually monitoring management's performance and implementation of the strategy;
- Ensuring that adequate financial and capital resources are in place for the group to meet its strategic objectives;
- Ensuring that the group has appropriate risk management systems and policies to effectively control and report on all key risk areas and key performance indicators of the business.

The board operated under a formal charter that is regularly reviewed a copy of which can be accessed at www.hfgroup.co.ke. The Board has a formal schedule of meetings in which notices and agenda are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board determines its size and composition, subject to the group's Articles of Association, Board Charter and applicable law. Currently, the Board is composed of the Group Chief Executive Officer and eight non-executive Directors, five of whom are independent including the Chairman. The Directors have a wide range of skills and experience and each contributes independent judgment 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.

Conflict of interest

Directors are prohibited from using their positions, or confidential and price-sensitive information, for their own personal or related third-party benefits. Directors are required to disclose to the board of any actual or potential conflicts of interests that they may have in relation to particular items of business. A registers of individual directors' interests in and outside the company are maintained and updated with details noted by the board on regular basis.

Procedure for nomination of directors

The Nomination and Governance committee is responsible for proposing to the Board qualified candidates that meet the criteria to serve as directors and board members of board committees. The committee uses a board skill matrix to determine the knowledge, capabilities, expertise and experience required for any vacancy. In case of directors representing a major shareholder, the shareholders nominate individuals to be elected as directors while the board verifies their qualifications.

The Nomination and Governance committee scrutinises the qualifications of each candidate and proposes the selected candidate for nomination to the board for consideration. Following the board's endorsement of the nominated candidate a letter of no objection is sought from Central Bank of Kenya before proposing nomination by shareholders.

CORPORATE GOVERNANCE (CONTINUED)

2. Board committees

The HF Group Plc board constituted three committees to assist the board in the discharge of its duties and responsibilities. Each board committee has formal written terms of reference that are reviewed on annual basis. The committees include the Nomination and Governance, Audit & Risk and Strategy.

a) Nomination and Governance Committee

The members of the Nomination and Governance committee are:

- Constance Gakonyo - Chairperson
- Gladys Ogallo - HFC
- Peter Munga
- Robert Kibaara - Group Chief Executive Officer

Majority of the committee members are Non-Executive Directors with the chair being an independent non-executive director. The committee operates under board approved Terms of References and meets at least on quarterly basis.

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 three Non-Executive Directors and operates under board approved Terms of References.

- Felister Kembi - Chairperson
- Adan D. Mohammed
- Gladys Karuri

Majority of the committee members are Independent Non-Executive Directors including the Chair. Two members of the committee are qualified accountants and are members of the Institute of Certified Public Accountants of Kenya (ICPAK). The committee operates under board approved Terms of References and meets at least on quarterly basis.

The principal roles of the committee are to:

- Ensure that accounts are prepared in a timely and accurate manner to facilitate prompt publication of annual accounts;
- Review the internal controls, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management.

CORPORATE GOVERNANCE (CONTINUED)

2. Board committees(continued)

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

- To review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.
- Monitor compliance with applicable law, statutory and regulatory requirements.
- Nominate an external auditor for appointment by the shareholders.
- Review of any related party transactions that may arise within the group.
- Monitor the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements.

c) Board Strategy Committee

This committee is composed of six Non-Executive Directors and the Group Chief Executive Officer:

- Benson Wairegi - Chairperson
- Peter K. Munga
- Adan D. Mohammed
- Kaushik Manek
- Gladys Ogallo - HFC
- Gladys Karuri
- Robert Kibaara - Group Chief Executive Officer

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.

CORPORATE GOVERNANCE (CONTINUED)

3. Attendance of individual Directors

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

Board meetings attendance for the year ended 31 December 2019	Board meetings				Total attendance
Date	23-Mar	24-Apr	02-Aug	06-Nov	
Steve Mainda	X	✓	X	✓	2
Benson Wairegi	✓	✓	✓	✓	4
Peter Munga	X	✓	✓	✓	3
Adan Mohamed	✓	✓	✓	✓	4
Constance Gakonyo	✓	X	✓	✓	3
Kaushik Manek	✓	✓	✓	✓	4
Felister Kembi	✓	✓	✓	✓	4
Gladys Karuri	✓	✓	X	✓	3
Robert Kibaara	X	✓	✓	✓	3

✓ 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, Management Lending Committee, Change Council, Service Council, Business Council and Digital Financial Services Committe. The Board appoints other committees as and when necessary.

4. 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 March 2020, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

5. Internal audit function

HF Group has designed an internal control system to ensure the integrity and reliability of financial statements and non-financial reporting as well as compliance with laws and internal standards and policies.

The Group has a fully operational internal audit function headed by a qualified senior staff member with functional reporting line to the Group Board Audit & Risk Committee. The function forms the third line of defence within the group enterprise risk management framework. The purpose of the audit function is to provide independent and objective assurance to the board that the governance processes and systems of internal control are adequate and effective. The audit function operates under annual risk based audit plan taking into considerations specific regulatory requirements and approved by the board audit committee.

CORPORATE GOVERNANCE (CONTINUED)

6. Risk management

The ultimate responsibility of the group's risk management rests with the group Board of Directors. The board is assisted by the Board Audit & Risk Committee with an independent Risk Management and Compliance function, which reviews the adequacy of the risk management systems and reports independently to the committee.

The group has instituted an enterprise risk management framework designed to identify, evaluate and manage significant risks associated with the achievement of the group's objectives.

7. Whistle blowing policy

HF Group has a whistleblowing policy that has multiple reporting lines including through an independent and credible external party. HF Group staff, customers and general public are encouraged to make reports on unethical and fraudulent behaviours without fear of retaliation from the suspected individuals.

All reported cases are promptly and comprehensively investigated with meritable actions being taken against identified culprits. A summary report is presented to the Board Audit Committee on a quarterly basis.

8. Communication with shareholders

The Group 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.

9. 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.

The HF Group Plc's Insider Dealing Policy was developed to ensure compliance with the statutory regulations and best practice rules to prevent insider trading and transactions involving the Company's securities. In line with the approved Policy, Employees' and Directors' are prohibited from dealings relating to HF's securities during certain months prior to the announcement of regularly recurring information, particularly profits, dividends and other distributions. They are also prohibited from passing on inside information to others who may use the inside information to trade in the company's securities

10. Compliance

During the year under review, the Board commissioned a Governance Audit which was undertaken by competent professionals accredited by the Institute of Certified Secretaries, in line with the requirements of the Code of Corporate Governance Practices for Issuers of Securities to the Public (the Code), 2015.

The Board was found to have established and implemented a sound corporate governance framework, which is in compliance with the legal and regulatory requirements, and in line with internal policies and global best governance practices in the interest of shareholders and stakeholders. In this regard, the governance auditor issued an unqualified opinion.

The Board is focusing on implementation of the areas of improvement identified by the Governance Auditor.

CORPORATE GOVERNANCE (CONTINUED)

10. Major shareholders as at 31 December 2019

	Name	No. of shares	% age shareholding
1	Britam Holdings Plc	74,666,146	19.41
2	Equity Nominees Limited A/C 00104	48,828,477	12.70
3	Britam Life Assurance Company (Kenya) Ltd	35,891,083	9.33
4	Britam Life Assurance Company (Kenya) Ltd	25,597,000	6.66
5	Standard Chartered Nominees Resd A/C KE11401	11,250,569	2.93
6	Permanent Secretary Treasury	9,265,135	2.41
7	Kerai, Ramila Harji Mavji & Harji Mavji	6,202,500	1.61
8	Mwangi, Peter Kingori	5,948,591	1.55
9	Bid Management Consultancy Limited	5,218,400	1.36
10	Kibuwa Enterprises Limited	5,012,575	1.30
11	Others	156,733,692	40.74
	Total	**384,614,168**	**100.00**

11. Distribution of shareholders as at 31 December 2019

Number of shares	No. of shareholders	No. of shares held	% age shareholding
1 – 500	7,783	1,209,677	0.31%
501 – 1,000	4,467	2,968,684	0.77%
1,001 – 10,000	13,409	36,663,361	9.53%
10,001 – 50,000	1,432	27,982,913	7.28%
50,001 – 100,000	168	11,673,337	3.23%
100,001 – 1,000,000	145	37,156,188	9.66%
Over 1,000,000	22	266,960,008	69.22%
Total	**27,426**	**384,614,168**	**100.00%**

12. Shareholding by Directors

Name	No. of shares	% age shareholding
1. Robert Ngugi Kibaara	291,500	0.0757
2. Kaushik Liladhar Manek	3,300	0.0009
3. Benson Wairegi	-	0.0000
4. Peter Kahara Munga	-	0.0000
5. Adan Daudi Mohamed	-	0.0000
6. Steve Omenge Mainda	-	0.0000
7. Constance Wangui Gakonyo	-	0.0000
8. Felister Wangari Kembi	-	0.0000
9. Gladys Muthoni Karuri	-	0.0000

HF GROUP SUSTAINABILITY REPORT 2019

HF Group presents its 2019 Sustainability report. We have collected all relevant non-financial information on our environmental, social, governance and ethics, and economic impact in this report as we progress in our commitment towards more responsible and sustainable business practices. We aim to present a balanced and comprehensive overview of our sustainability performance.

This report discloses our financial and non-financial performance and presents data for 2019, referring to prior-year results for context. It has been prepared in accordance with the GRI Standards: Core option. Please refer to the GRI Content Index for a complete listing of GRI disclosures included in this report.

For any questions on this report, please contact marketing@hfgroup.co.ke

2019 Report Highlights

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

1. Sustainability at HF Group

HF's role in society is to stimulate economic development in a way that ultimately drives sustainable progress. We believe that building a sustainable business means increasing transparency and promoting open dialogue about our opportunities and challenges. That is why we aim to communicate openly and comprehensively about our sustainability approach and performance.

We earn our license to operate and the trust of our customers by conducting our business responsibly. We have organized our sustainability report around our strategic approach and the key roles we play in society. This being our second reporting year, we begin with an in-depth look at how we are addressing the challenges and opportunities towards responsible business. We see sustainability as a source of competitive advantage. Research has shown that, companies that proactively reduce their use of scarce resources have a better financial performance and lower-risk profile. We are therefore making conscious decisions to ensure our responsible business ethos on social, environmental and governance are applied towards greater value to the company.

The investment community is increasingly interested in understanding how businesses are contributing to and generating impact for the Sustainable Development Goals (SDGs). Adopted in September 2015, we believe that the SDGs offer us a way of embedding responsible business policies into our thinking and even further into the core of the business. There is also a strong business case for investing in opportunities aligned with the SDGs, including offering sustainable financial products that differentiate us in the marketplace.

Much of the initial work of integrating the SDGs into our business involves adapting the goals into tangible purpose for us as a company. We look forward to sharing our discoveries and progress in this regard in future reports.

In this report, we disclose our major sustainability-related policies, actions and progress. It also forms the basis of our sustainability strategy and policies.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

2. Our Approach to Sustainability Reporting

We believe that transparency is a currency that builds trust. We started on our Sustainability Reporting journey in 2018 where our theme was "The Sustainability Creation Journey". In 2019, our sustainability objectives remained as follows:

a) Leverage sustainability to grow the business

b) Embed sustainability in performance management

c) Promote sustainability throughout the company's value chains and

d) Increase sustainability leadership and policy engagement

In 2019, we opted to place a special emphasis on the first two objectives. Our theme for this report is, 'Value creation through the SDGs'. We summarize key non-financial information that is a result of the actions we undertook in the reporting period. Our non-financial targets, also prepared in 2019, are also highlighted in this report. Reporting on our performance against key indicators will therefore form the basis of subsequent annual sustainability reports.

2.1 Our Corporate Strategy

HF Group seeks to create sustainable economic value through a long-term commitment to strong corporate governance, social responsibility and environmental stewardship. The Group loss before tax reduced by 79 percent to Kes 137,802,000 while the bank posted a loss before tax of Kes 17,733,000 which is 95% percent improvement from the FY2018 loss before tax of Kes 381,724,000. We want our stakeholders to know that HF is a financially solid, trustworthy company that embraces sustainable business practices as good business strategy. To achieve this, we have adopted a business strategy in 2019 that is driving us forward by setting out what we want to achieve and how we will work together to deliver our goals across the following strategic pillars:

- Expansion to new banking segments
- Building a digital bank
- Deepening customer relationships
- Leadership in mortgage financing

Our Sustainability Strategy will deliver these goals in a way that makes us one of the most responsible businesses in Kenya.

2.2 Sustainability Strategy

We appointed MK-Africa Sustainability Consultants to guide us in our sustainability goal setting and reporting. Our sustainability strategy will ensure that we manage our sustainability-related risks and opportunities. It will also drive performance across the sustainability issues that are most important to our business strategy and our stakeholders. We will work to drive its implementation and continuous improvement across HF Group.

The SDGs have expanded our outlook and remind us of the important role business has to play in sustainable development. We still have much to learn and do in terms of integrating the SDGs into HF Group, however we have begun to make progress. We have already identified the SDGs where we feel we make the most impact. These are outlined in the next section of this report. We will continue to deepen our understanding of the impact we are making as a business.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

Outline of the process for disclosing information on outputs, outcomes, impacts and contributions to the SDGs.

Source: Integrating the SDGs into corporate reporting: A Practical Guide

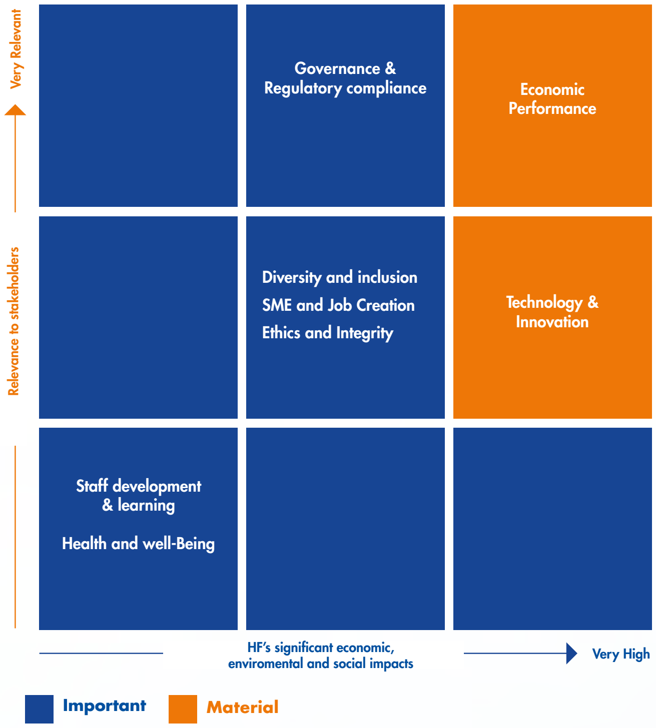
In 2018-2019, we identified the SDGs to which we contribute the most. The first phase of this process was analyzing and identifying the SDGs to which we contribute most through key business units. As we continue to integrate the SDGs into our business, each business unit will set Key Performance Indicators (KPIs) for the goals that are most relevant to their activities and then communicate the importance of the goals to every employee. In 2020, specific SDG-related targets will then be identified and cascaded to teams by sustainability champions, directors and line managers. Going forward, we will report against SDG-related targets using the Business Reporting on SDGs Guidance to collect input from our business units to map strategic projects, targets, policies, and disclosures against the business indicators of the SDGs. The assessment will encompass both the positive and negative impacts of HF's performance on the SDGs, including benchmarking against our industry peers.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

3. What Matters Most – Materiality

For us to succeed in achieving our set goals and objectives, we need to understand and respond to the changing world in which we operate. To identify our material issues for this report, we engaged with our stakeholders through a desktop survey. The survey sought to identify the issues perceived as being of highest importance to our stakeholders against our sustainability approach. A more in-depth materiality assessment will be conducted in 2020.

The materiality matrix below outlines the issues identified by our stakeholders as being most material. Also, through our business activities, asset location and investment decisions, we have had an impact on the Sustainable Development Goals (SDGs). The matrix indicates the SDGs identified as most relevant. We will report on the SDGs indicators the company is contributing to in subsequent sustainability reports.



3.1 Key findings of our materiality assessment:

- Our economic performance is addressed in our 2019 Financial Report. We have however made references to specific sustainability issues in this report.
- Our focus on Governance & Regulatory Compliance by various departments is intricately linked to our core business.
- Technology and Innovation is a core business topic and considered materially important by our stakeholders. We will focus more on our role in providing innovative financial solutions using technology as a key driver.
- A productive and safe and diverse working environment is also core business topics that are covered in this report. We will work on integrating these issues across all our operations backed by strong board support.

We continue to further analyze our impacts on these topics and define key areas for implementation; supported by our ongoing SDGs impact assessment.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

4. Alignment with the UN Sustainable Development Goals (SDGs)

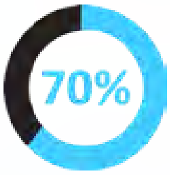
The United Nations Sustainable Development Goals (SDGs) represent a global call to action for stakeholders in member countries to come together and address some of the greatest barriers to sustainable development facing society. As the role businesses must play has become clearer, the goals have developed into an increasingly important tool for assessing the impacts of companies on society more comprehensively. The SDGs are a powerful framework with which to construct and manage portfolios designed to deliver positive societal impact alongside competitive returns. To enable investors to make informed decisions and direct capital towards positive impact, companies need to publish relevant SDG performance data.

HF Group's contributions to the Sustainable Development Goals (SDGs) are based on an assessment of the business risks and opportunities of the goals. Our aim is to ensure that our SDGs activities are well planned and both relevant to, and aligned with, our business strategy. Last year, we identified 4 of the 17 SDGs that are most relevant to our business and stakeholders, and on which we can have the most impact.

The process used to identify these SDGs and prioritize them for action was mapping the SDGs to our current business reality. We also reviewed the relevant SDG targets to help identify connections between the goals and classified them according to a comparative level of relevance to our business.

1. SDG 11: Safe and Affordable Housing

'Make cities and human settlements inclusive, safe, resilient and sustainable'

GOAL	RELEVANCE	TARGETS
		 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Goal Impact

Most of Kenya's population growth is urban with 30 percent of Kenyans living in cities. With more than 250,000 Kenyans moving into cities every year, it is projected that the country's urban population will more than quadruple by 2045. The country will reach a "spatial tipping point", when half of Kenya will be residing in the urban areas by 2033 . The Government of Kenya launched the Boma Yangu Affordable Housing Programme (AHP) as one of the pillars under its 'Big 4 Agenda'. The programme, which began in 2018, ensures that low and middle-income households have access to decent and affordable housing units. HF's Nyumba Yangu is a savings account uniquely designed to respond to this changing landscape.

The account is registered as a Housing Savings Plan (HOSP) meant for individuals who are saving towards owning their first home. The plan has a tax relief of 10% withholding tax as opposed to the normally 15% withholding tax charges with tax exemption on amounts up to Kes. 8,000 per month or Kes. 96,000 per annum.

In 2019, we partnered with the government through the Kenya Mortgage Refinance Company (KMRC) in the following affordable housing projects:

- Pangani Housing Project
- Habitat Heights in Lukenya

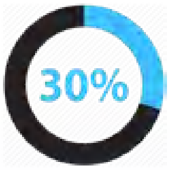
HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

In 2019, we began end – user financing, sales and marketing of the development of 1,562 affordable housing units in the city's Pangani estate in a partnership that includes end-user financing, sales, and marketing of the project consisting of one, two and three-bedroom apartments that will range from between Ksh. 1million and Ksh. 3 million. At Habitat Heights, we aim to provide end-user financing and sales & marketing of 8,888 affordable housing apartments.

In addition to offering financing, we are creating shared value in the community at these projects in various ways. For example, at Komarock, we set aside 5 acres to build a primary school. We also built a clinic, which will be leased to a hospital and will have an area for professionally managed day care centers. At Kahawa Downs, we had a school nursery school built as part of the project before handover while at Theta Dam; the proposed project includes land set aside to construct schools including 5 schools i.e. 2 high school, primary school and kindergartens, 2 primary schools and a high school. We are also offering mortgages to the unbanked by creating a market for developers in affordable housing through the Nyumba Yangu project. In 2019, 1,000 artisans were appraised to be financed for a mortgage. We are looking to lend up to Ksh. 10bn in mortgages to this market in 2020.

2. SDG 9: Industry, Innovation and Infrastructure

'Build resilient infrastructure, promote inclusive & sustainable industrialization and foster innovation'

GOAL	RELEVANCE	TARGETS
		 Increase the access of small-scale industrial and other enterprises, to financial services, including affordable credit, and their integration into value chains and markets.

Goal Impact

Small and Medium Enterprises (SMEs) make a contribution of 33.8 per cent to the Kenyan economy. 49.2 per cent of licensed SMEs had a monthly turnover of less than Kes. 50,000, while 35.7 per cent recorded a monthly turnover of between Kes. 50,000-1,000,000. Only 0.2 per cent of these businesses had a monthly turnover greater than Kes. 1 million. SMEs are hindered by inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills and rapid changes in technology .

Innovation and hard work is the hallmark of an SME. All business owners start with an idea, and develop it to create a viable business that meets the needs of its customers. But SMEs, like all businesses, require support to allow those ideas and innovations to materialize in a successful venture. These support include access to financial services and the ability to access markets.

Target 9.3 identifies the importance of access to financial services. This target again points to the importance of providing funding to SMEs, but it also includes the idea of strengthening the ability of SMEs to access markets and expand their businesses through value chains, thus going beyond pure credit.

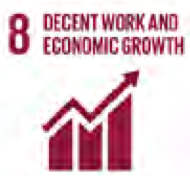
HFC has segmented the SME offering with a major focus on four main sectors namely; Real Estates Value chains, Trade and Manufacturing, Heath Sector and Education. The SME Customer Value Proposition (CVP) also reflects the diversified product offerings that mainly provide working capital and capital expenditure relief to our Clients. The largest portfolio is in the Real Estate value chains hence the recent partnership with UN Women in promotion of SDG No.5 and 8 on Gender equality and Decent work and economic growth respectively. The partnership also provided a customer's engagement forum during the 1st inaugural Real estate ecosystem players forum which had more than 200 participants with key note speakers from various Government and Private sector bodies.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

Among the key beneficiaries of HFC SME offerings are the 1300 SMEs who are mainly artisans from Ngong Road, Kamukunji and Kariobangi popularly known as NGOKAMKA Holdings Limited who are involved in the low cost housing projects sponsored by the central government.

3. SDG 8: Decent work and economic growth

'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'

GOAL	RELEVANCE	TARGETS
		 Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money service provider.

Goal Impact
Kenya is ranked third in Africa after South Africa (90%) and Seychelles (95%) in terms of access to financial services. The proportion of Kenya's population with access to formal financial services is 83%, driven largely by mobile technology. SDG 8 promotes sustained economic growth, higher levels of productivity and technological innovation.

In 2019, we launched the HF WhatsApp banking solution to offer customized mobile banking services to our customers, becoming the first bank in the region to commercially go live with WhatsApp banking. WhatsApp is a highly popular messaging platform with millions of active users in Kenya. Our WhatsApp banking allows customers to interact with the bank for functions such as accessing account services, do loan applications, bill payments, airtime purchase, funds transfers, and goods purchases among other services. The service currently has 3276 users (60 percent male; 40 percent female) and the target is to increase the number of users to 7,000 by end of 2020.

5. Embedding Sustainability into our Business

We aim to lead our industry by embedding strong environment, social and governance (ESG) standards into our everyday decision-making across all our operations. Our approach integrates ESG concerns by applying group-wide corporate rules and ESG instruments across all our business activities.

We are updating our policies to further increase transparency around our internal processes and guidelines related to our ESG approach. We will systematically integrate ESG considerations through our business referral and assessment processes and guidelines. If a risk is identified, the case is referred to the appropriate group-level ESG function to assess the ESG risk in more detail. Our sustainability reports will include how the number of assessments conducted by our various business functions based on the guidelines. Our collaborative approach is designed to address material ESG risks and concerns, build understanding and ultimately drive change and ESG improvements. Other tools that help to integrate ESG into our business

WHAT IS ESG?

Environmental, social and governance (ESG) refers to non-financial issues, which can be influenced by, and can influence, our business activities. Examples include human rights violations, illegal logging activities or severe corruption allegations. ESG factors can also represent business opportunities – such as is the case for investing in renewable energy to support the energy transition.

If they are not identified and managed effectively, ESG risks can have significant repercussions for our business, our customers, and our invested companies. These span legal and reputational risks, supply chain and business disruption risks, quality and operational risks, human rights, and financial risks.

We manage these risks diligently across our businesses. Our approach integrates ESG concerns by applying group-wide ESG instruments across all our investment and real estate activities.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

processes include: ESG lending exclusions; sustainability-themed community investments such as renewable energy, green real estate, and regular dialogue and exchange with peers, regulators and internationally recognized NGOs.

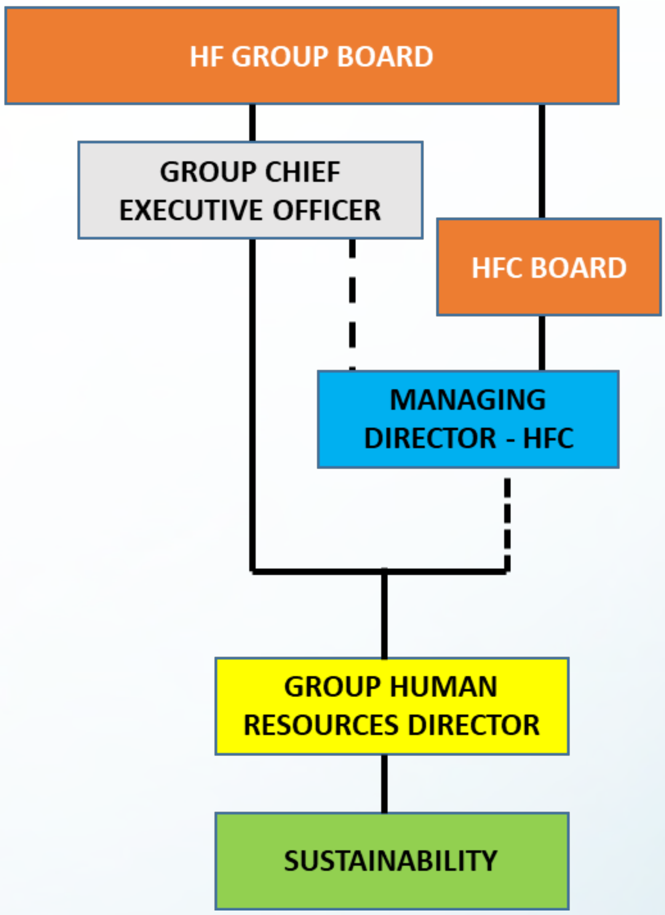
5.1 Sustainability Governance at HF Group

Strong corporate governance is key to to our sustainability approach. The Group Board of Directors is the highest governing body for sustainability-related issues as recommended by the Capital Markets Authority . Board members are accountable for ensuring ESG integration across the business. This function is delegated to the Group Executive Management team which leads on associated stakeholder engagement through the respective Sustainability Champions. Functional departments provide regular updates on sustainability issues directly to management team and Board of Directors. In addition to the Board, several committees play an important role in our decision-making processes including:

Risk Department oversees risk management and monitoring for the organization. Their function will now include sustainability risk with the risk department being the escalation point for ESG-related topics, based on analysis and deliberations within the sustainability champions committee.

Group HR / Strategy Department: monitors the investment business and its risk management, as well as developing new investment policies and strategy.

HF Group Sustainability Governance Structure



HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

5.1.1 Sustainability Management

Within the Group companies, sustainability strategy is cascaded through various subsidiaries by the HR / Strategy Department. This office is responsible for steering the integration of ESG aspects into core business activities. Its scope includes managing CR governance, fulfilling external reporting and rating requirements and supporting operating entities to effectively integrate the Group's strategic sustainability approach and policies into their business processes.

The ESG Office is part of the HF Group HR / Strategy Department. Progress on identified priorities is communicated regularly to the Board and to external stakeholders through HF's Sustainability Report.

We will base our management approach and reporting on voluntary international standards and guidelines such as the GRI Standards guidelines, sustainability indices, and engagement with expert working groups such as the United Nations Global Compact (UNGC). In compliance with the 2015 Kenya Code of Corporate Governance, we have published relevant non-financial information within this Sustainability Report.

6. Stakeholder Engagement

Engaging our stakeholders in regular dialogue is a fundamental step in the Sustainability Reporting journey. We believe that finding out what social and environmental issues matter most to them will improve both our decision-making processes and accountability. Our stakeholders facilitate the identification of the impacts the company has on its material issues.

In compiling this report, we consulted representatives from key stakeholder groups and identified issues of material concern. Alongside research to assess external trends, various HF reports, we carried out a survey among our internal stakeholders. We asked them to rate the importance of our material issues. Our methodology was based on the Global Reporting Initiative's guidance on materiality analyses as well as on external requirements such as those given by the Capital Markets Authority of Kenya Code of Corporate Governance (2015).

Besides our many commitments to international and national sustainability bodies and initiatives, our engagement activities focus on the five stakeholder groups, which are most impacted by our business.

Customers	Shareholders
Our engagement with our customers is so as to communicate our sustainability strategy and performance, enabling them to make informed decisions about their own investments and for us to understand our of Kcustomers' expectations. • Customer Surveys and Road Shows • Dialogue and roadshows • Ratings and benchmarks • Website, Sustainability Report, rating results	Feedback from our shareholders helps us to improve our products, services and processes, and to offer easy and adaptable solutions. • Annual General Meetings • Learning from and sharing our shareholders' insights • Review of industry developments • Research and development to support innovation

Employees	Communities	Regulators
We believe employees who are engaged with and committed to their jobs generate long- term value for our business. To this end, we continuously seek their views and respond to their ideas and concerns through: • Employee engagement Surveys • Employee dialogs and networks • Corporate volunteering programs	We value the communities where we operate. We believe in creating better lives for them in our pursuit for better business for good. In FY 19, we undertook 150 hours of Corporate Social Responsibility and made Kes. 1,818,122 of donations in kind	On a regular and ongoing basis, we deliver value to our regulators by complying with all the applicable regulatory frameworks relevant to our areas of operations. Some of our regulators at Group Level include; The Capital Markets Authority, The Kenya Revenue Authority through payment of our tax obligation to the government and The Central Bank of Kenya

Figure 3

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

7. How We Create Value

This section demonstrates our direct contribution to different stakeholder groups and translates our work into the roles we play in society with the communities where we operate. In order to be considered a **Responsible Business**, we will continue to integrate ESG criteria across our operations. Risk management, improving customer satisfaction and reducing our environmental impact all play a major part in this. Our role as an **Employer of Choice** is of high relevance as we depend on having the best people in place and keeping them motivated to serve our customers.

7.1 Responsible Business

Strong ESG management is keyto mitigating risks and seizing opportunities. We would like to create a lasting positive legacy for society through our business. Sustainable business practices improve the financial performance of companies and therefore we have put in place ESG policies that will continue to become an integral part of our business operations.

In response to our SDG strategy, we have aligned our efforts to offer adequate, safe and affordable housing (SDG11). We have also committed to further entrench the use of energy-efficient technologies (SDG7) within our projects and facilities and reducing our negative impact on the environment (SDG15).

7.1.1 Approach

We are driving continuous improvement across our businesses by continuing to systematically integrate ESG considerations across our entire business operations. We continuously enhance and deepen our approach, which comprises the following key elements:

a. **ESG referral and assessment process:** For unlisted investments such as real estate, we address ESG risks by using our referral process. Upon detection of an ESG risk, we trigger the referral process, leading to detailed assessment of the potential risk by the credit department. Based on the outcome of this assessment, we make the decision either to proceed with a transaction, to proceed and require the mitigation and management of ESG risks, or to decline a transaction on ESG grounds. This process will be monitored and reported on in the 2020 sustainability report.

b. **Excluding certain sectors and companies:** Our Exclusion lists are updated annually based on data from external service providers and in-house research. Our approach covers exclusion and restriction of certain sectors, such as companies producing or associated with controversial weapons, land degradation, gambling etc.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

7.2 ESG in our Real Estate Projects

HF is keen on further integrating and taking into consideration of ESG matters into its project financing. In this regard, we have three key areas of focus i.e. assess, engage and improve:

a. **Assess:** During the acquisition phase in particular, we screen transactions for potential ESG issues. Every new investment undergoes a thorough due diligence process, including a technical and environmental due diligence and a property related ESG assessment. As a general rule, any new office or retail investment (equity) must have the National Environment Management Authority (NEMA) certification

b. **Engage:** Our next phase will be management where we will implement a collaborative engagement strategy that seeks to influence business partners to strengthen their ESG activities. This will include ensuring consideration of ESG topics as part of performance review meetings with joint venture partners and supporting external property managers to improve ESG standards and performance.

c. **Improve:** We aim to measure and improve the ESG performance of our real estate financed projects. For example, we seek out pilot projects and group-wide initiatives that can include specific energy efficiency measures, such as the installation of LED lighting.

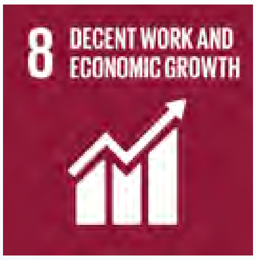
Looking Ahead

- We will maintain our focus on measuring the social and environmental impact of our operations and aligning our project financing strategy with the SDGs where we can have the greatest impact.
- Continue to implement measures to achieve the switch to renewable power for our Group operations

7.3 Reliable Company

Our stakeholders' trust in HF Group is based on resilience, integrity and competence. To build on these attributes and ensure that we are fit for the future, we are changing the way we think about and engage with our stakeholders. We must use these interactions as opportunities to empower, engage and inspire and build lasting relationships. This means engaging with communities and networks around specific issues and keeping abreast of emerging issues as they arise.

As part of our SDG strategy, we have aligned our efforts with four of the goals by committing to promote ethical business practices (SDG16), create a friendly and secure workplace (SDG8).



7.3.1 Approach

Our success depends on being seen by customers as a financially stable and trustworthy company. We achieve this by demonstrating integrity, competence, and resilience in everything we do. We work hard to build a culture of compliance, ethical decision-making, and good governance, combined with transparent financial communication and thought leadership on the issues affecting our investors and customers.

Our approach encompasses a wide range of focus areas that take into account: high ethical standards through strong leadership; the HF Code of Conduct and internal controls. Furthermore, we continue to manage our environmental impacts.

Integrity

Integrity and honesty are fundamental to building relationships of trust. This means conducting our business with transparency in every single transaction. Our anti-corruption programs help to ensure we make decisions based on what is right and good for business, while complying with applicable legal restrictions.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

7.3.1 Approach (continued)

Ethical Standards

Based on the principles of trust and integrity, the HF Code of Conduct for Business Ethics and Compliance establishes minimum standards of conduct for all HF employees. It also sets out the ethical responsibilities of the Board, especially with respect to handling potential conflicts of interest and standards of corporate disclosure. The standards apply to each risk area and cover employee ethical behavior, both personally and professionally. We have in place a whistle blowing policy through which we encourage staff to report any cases of fraud, risk or irregular activities that they may come across in their day-to-day operations.

HF Group conducts Procurement in a professional and ethical manner, with high standards of integrity guided by our Procurement Policy, Code of Conduct and Conflict of Interest Policies. Our Sourcing Strategy aims at supporting and promoting local suppliers and vendors whilst observing transparency, fair trade and business ethics. We endeavor to source from local vendors and have partnered with UNWomen in achieving SDG5 on Gender Equality and Women empowerment by easing of registration to new women-owned companies.

We subscribe to principles of integrity, openness and fairness to all suppliers while executing our procurement activities and duties which are bench-marked on industry best practices.

These are achieved by:

1. Ensuring all suppliers are accorded fair and equal opportunity while observing qualifications.
2. Achieving value for money for all the Procurement expenditures.
3. Carrying out procurement process that promote HF Group business image and standards.
4. Accountability for all the transactions.
5. Procurement objectives are aimed and aligned to achieving HF Group's strategic goals.
6. Promoting zero-tolerance to corruption by upholding anti-bribery and anti-corruption laws and rules.

Zero Tolerance to Fraud and Corruption

We take a zero-tolerance approach to fraud and corruption. At a minimum, that means complying fully with local and international anti-corruption and anti-bribery laws. Our policies prohibit the offer, acceptance, payment or authorization of any bribe, or any other form of corruption, be it with the private sector or with government officials. Signing the anti-corruption policy is compulsory for all employees.

Anti-Money Laundering

Within the framework established by HF Group's Code of Conduct for Business Ethics and Compliance, HF companies have established policies and procedures for the prevention of money laundering and terrorism financing based on high standards of customer identification, verification and monitoring, as well as suspicious activity reporting in compliance with applicable legal requirements. We use various screening and monitoring systems to manage risks and to ensure compliance.

7.4 Corporate Governance

We believe that good corporate governance is not restricted to fulfilling our legal obligations. Rather, it is an integral part of our corporate culture and a way in which we can build trust. The Board of directors ("the Board") is the core of HF's system of corporate governance and is ultimately accountable and responsible for the performance and affairs of HF. The Board constitutes three key committees namely:

a) Group Strategy Committee

b) Group Nomination and Governance Committee

c) Group Audit & Risk Committee

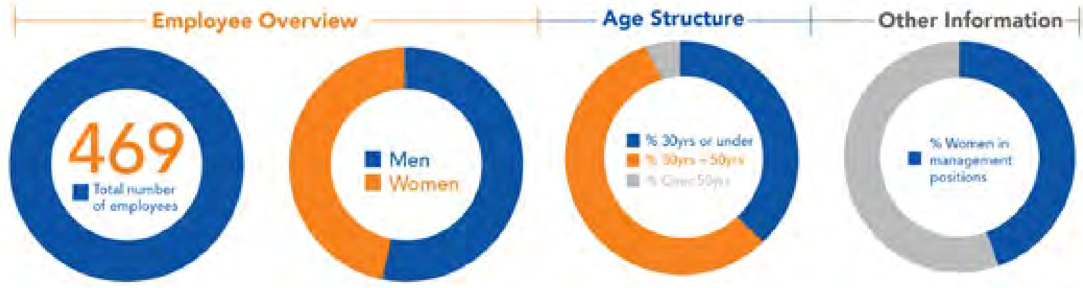
The Board is made up of eight non-executive directors and the managing director. The board consists of three women directors. The Nomination and Governance Committee of the Board appoints all members of the Board of Directors according to the CMA Code of Corporate Governance. This Committee periodically reviews the Executive Directors' remuneration fixed in their employment contract. Remuneration of non-executive directors comprises of quarterly allowances, sitting allowances for board and committee meetings and travel allowance.

Looking Ahead

- Continued commitment to good governance, including transparency, accountability, access to information, participation, and efforts to end corruption.

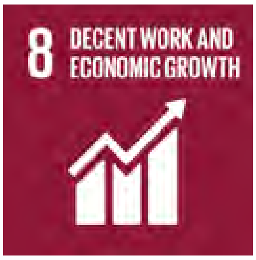
HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

7.5 Employer of Choice



At HF, we value our employees as key stakeholders. We depend on having the best people in place and keeping them motivated and engaged to successfully deliver our business strategy and goals. We foster a working environment where both people and performance matter. We take a strong view regarding gender equality and diversity in our company, and we care for the health and safety of our employees.

In response to our SDG strategy, we have aligned our efforts with two of the goals in 2020 and committed to fostering a conducive work environment (SDG8) by putting safety first for all staff, as well as ensuring that all staff are treated equally and to promote and support Diversity and Inclusion (SDG10).



7.5.1 Our Approach

People are our most important asset. Defining our workforce requirements in a fast-changing world is one of our key challenges. Determining which employees to recruit, which training to offer, and which working environment, leadership styles, development and remuneration strategies will help us remain an 'Employer of Choice' is our topmost priority.

We focus on diversity and equal opportunity, career development and employability and attracting, managing and developing talent. Our people strategy is based on 6 key strategic pillars, which have given us a simplified platform where we are now able to measure our performance against set key performance indicators.

These 6 pillars include: **culture** where we endeavor to create a conducive climate for our people to be their best; **talent planning** and **management** where we aim to hire, develop and retain the best people in their respective fields; **performance management** in aligning of the Group strategy to individual employee contributions; **reward** where we define and manage a clear reward platform that enables fair, efficient and consistent application; **employee engagement** where we seek to empower and equip our employees with knowledge, resources and an enabling framework and finally **compliance** which promotes a culture that conforms with the existing legal and regulatory framework.

7.6 Fair and Transparent Remuneration

In designing our remuneration and incentive structures to reward people in a fair and appropriate way, we use both monetary and non-monetary rewards to encourage viable value creation. Our remuneration system provides a transparent, fair and integrated offering to attract, motivate and retain highly qualified employees. We continuously strive for market excellence by obtaining benchmarking information and ensuring employees are treated equally. We review compensation annually to ensure that HF's remuneration offering remains competitive in the relevant markets, considering individual performance as well as internal and external equity aspects. Our variable remuneration system aligns remuneration with the performance of the individual and the achievement of HF's financial and strategic goals.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

This 'pay for performance' culture allows us to operate effectively in different performance scenarios and business circumstances, while promoting risk control and avoiding inappropriate risk taking.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employee render the related service are recognized in respect of employees' service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

We operate a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. This scheme is administered by an independent fund manager and is funded by contributions from both the company and the employees. We also contribute to the statutory National Social Security Fund. Our obligation under this scheme are limited to specific obligations legislated from time to time.

7.7 Talent Attraction and Management

HF's human resources strategy is largely founded on the right people and culture. We aim to recruit the best talent in the market and also to develop those employees who wish to grow to in their careers to adapt to evolving methods and new approaches.

We understand career development includes on-the-job development in the current role. Additionally, we consider cross-functional and cross-company mobility as valuable experience that drives career development. It enables talented employees who want to grow to gain different experiences and bring their skill sets to new challenges. To enable mobility, we encourage business managers to fill open positions and projects beyond their own department or operating entity and provide opportunities for mobile executives who want to take a next career step.

The human resources team holds career aspiration discussions and shares potentially suitable job openings with mobile candidates to support them in identifying potential next steps in their careers.

7.8 Diversity and Inclusion

We believe diversity is fundamental to the success and innovation of a company. We are developing a workforce that includes people from many different nationalities and backgrounds – be it gender, ethnicity, age, religious belief, disability or nationality. We require a diverse workforce to provide the broad range of skills and experience with which we can respond to challenges and opportunities and meet our investor and customer needs. We are therefore looking to promote diversity and inclusion by empowering and developing people based on individual performance and demonstrated potential. Consistent with our Code of Conduct, we have a zero-tolerance policy for discrimination and harassment in the workplace. In 2020, we will actively train our people on the topic of unconscious bias to raise awareness and educate them on what can be done to reduce the negative impact of bias in, for example, job interviews and performance reviews.

In 2019, we hired 118 staff, out of which 50 were women, representing 42% of the hiring quota. The management is making a deliberate effort to increase the female: Male ratio to 50:50, and as at end of 2019, this ratio grew from 45% in 2018 to 47% in 2019, being a 2% growth over the period.

We will continue to advance diversity in our hiring policies in 2020 to include people living with disabilities and minority groups.

7.8.1 Employee Engagement

An engaged workforce performs better, is more committed and delivers a strong customer and investor focus. We therefore make employee engagement a high priority.

7.9 Occupational Health and Safety

The health and wellbeing of our people directly impacts on our business success. We have put in place an Occupational Health and Safety (OHS) Management System, which cover our employees and contractors, all our workplaces and all the activities that the company carries out. This comprises a well-defined policy that governs our health and safety; a well

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

trained and certified health and safety committee and audits being carried regularly by the director of safety and health. The operations manager – a full time employee of the organization - is in charge of the OHS system.

Our Sexual Harassment Policy and Ethical Conduct Policy protect our employees against intimidation, threats, or any actions that could have a negative impact on their employment or work engagement.

We aim to provide a productive and health-promoting workplace to enable our employees to prioritize health. Activities to promote health and wellbeing take place across the Group. In 2020, we will conduct a health and safety training to our employees covering aspects of first aid, fire safety and OSH and also the certification of a health and safety champion from each of our departments and branches.

Flexible working in terms of location and hours, including part-time jobs at all levels, is one of the ways we help employees manage work-life balance. We also have a lactating room for nursing mothers and where possible for the business and the individual, we support flexible working on a regular basis.

7.10 Work Related Injuries

Within the reporting period, we had zero work related injury and ill health as a direct result of our business operations/ activities. We attribute this to the value we have put forward to ensure that our workers are safe, healthy and happy as they go on with their activities.

EMPLOYER OF CHOICE:
Looking ahead

- We will bring all health-related activities together to create a network of experts who will share best practices and develop common strategies to improve safety, health and wellbeing of our employees.
- We aim to create an environment that has the experience and diversity of our employees at its heart, including dedicated measures to raise awareness on the impact of leadership behaviors.

8. Sustainability Performance Data

8.1 Our Targets and Achievements

8.1.1 Social Inclusion

Topic	Current Performance	Ref Section
HF SMEs Support	Invested over Kes. 136,620 in 96 start-ups and small-scale businesses	Pg. 63
Employee Volunteering	Over 150 hours directed to CSR	Pg. 66
Charitable	Kes. 1,818,122 of donations in kind	Pg. 66

8.1.2 Business Integration

Topic	Current Performance	Ref Section and Data
ESG	ESG Policy to be finalized and presented to the board for approval	Pg. 64

8.2 Human Resources Performance

This section contains data related to the Human Resources performance of HF Group.

Data in this section is part of the 'Employer of Choice' section.

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

	Topic	2019	Ref Section
Employee Overview	Total number of employees	469	Pg. 71
	Thereof: men	250 or 53%	
	Thereof: women	219 or 47%	
Age Structure	% 30yrs or under	38%	
	% 30yrs – 50yrs	58%	
	% Over 50yrs	4%	
Other Information	Turnover rate (%)	11%	
	Total recruitment: Men	68 or 58%	
	Total recruitment: Women	50 or 42%	
	% Women in management positions	42%	

8.3 Additional Sustainability Performance

Topic	2019	Data
Income Taxes	Kes. 549,580,718.	Group records

9. Reporting Parameters, Scope and Materiality

Content of the report is focused on the key requirements of our stakeholders. Furthermore, this report contains key insights for our other stakeholder groups such as customers and employees. As outlined in section 01, this report makes links to other documents, disclosing our approach and reporting on our progress.

Our Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards – core option. The GRI Content Index, available as an appendix to this report is accessible through our website.

Scope of reporting

The 2019 Sustainability Report relates to the entire HF Group and all measures, activities and key figures refer to the 2019 fiscal year, unless otherwise stated. This is our second annual Sustainability Report. Unless otherwise stated, we take operational control as the boundary for reporting.

Material Issues and Aspects

The key topics to be included in HF's Sustainability Report were shaped byour materiality analysis, which satisfies the GRI Principles for Defining Report content (sustainability context, materiality, completeness, and stakeholder inclusiveness). To ensure alignment with GRI Standards, we mapped the outcomes of our stakeholder consultation and materiality assessment with our solutions to the GRI Standards topics. Based on the material issues identified by our materiality analysis, we have mapped the issues to GRI disclosures and identified the upstream and downstream boundaries (see disclosure 103–1 for each material topic in the GRI Content Index).

HF GROUP SUSTAINABILITY REPORT 2019 (CONTINUED)

10. GRI Index

General Disclosures –GRI 102

1. Organizational Profile		Page No.
102-8	Information on employees and other workers	Pg. 71
2. Strategy		
102-14	Statement from senior decision makers	Pg. 43
3. Ethics and Integrity		
102-16	Values, principles, standards and norms of behavior	Pg. 26
102-17	Mechanisms, advice and concern about ethics	Pg. 69
4. Governance		
102-18	Governance structure	Pg. 65
5. Stakeholder Engagement		
102-40	List of stakeholder groups	Pg. 66
102-42	Identification and selection of stakeholders	Pg. 66
102-43	Approach to stakeholder engagement	Pg. 61
102-44	Key topics and concerns raised	Pg. 61
6. Reporting practice		
102-47	List of material topics	Pg. 61
102-55	GRI content index	Pg. 74

Disclosure 201 – Economic Performance

	General Disclosures	
	Economic Performance	
201-1	Direct economic value generated and distributed	Pg. 73

Disclosure 401 - Employment

401-1	New employee hires and employee turn over	Pg. 71

Disclosure 403 – Occupational Health and Safety

403-1	Occupational Health and Management System	Pg. 71
403-3	Occupational Health Services	Pg. 71
403-5	Worker training on OHS	Pg. 71
403-8	Worker covered by an OHS management system	Pg. 71
403-9	Work related injuries	Pg. 72

Disclosure 405 – Diversity and Equal Employment

	Diversity and Equal Employment General Disclosures	Pg. 71
405-1	Diversity of governance bodies and employees	Pg. 71

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of HF Group Plc set out on pages 83 to 189 which comprise the consolidated and separate statements of financial position as at 31 December 2019, 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 or loss of the Group and Company for that year. It also requires the Directors to ensure the Group and Company keep 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 judgments 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 position of the Group and the Company and of the Group and Company profit or loss.

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 30 March 2019.

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Steve Mainda
Chairman

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Robert Kibaara
Director

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Felister Kembi
Director

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Regina Anyika
Company Secretary

Date: 30 March 2020

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.83 hadi 189 ambazo zinajumuisha taarifa za pamoja na za kando za hali ya kifedha kufikia Desemba 31, 2019 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 na kutoa taarifa za matumizi ya pesa kwa mujibu wa viwango vya kimataifa na kwa njia ambayo inakubalika na sheria za makampuni nchini Kenya ya mwaka 2015 na kwa njia ambapo ukaguzi wa ndani ambao wakurugenzi wataona unafaa kuwezesha maandalizi ya taarifa za matumizi ya pesa zisizo hakiki iwe kwa kuhadaa au makosa.

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 Machi 30,2019 na kutiwa sahihi kwa niaba yake na :-

Steve Mainda Mwenyekiti	**Robert Kibaara** Mkurugenzi
Felister Kembi Mkurugenzi	**Regina Anyika** Katibu wa Kampuni

Tarehe : Machi 30, 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of HF Group Plc (Group and Company) set out on pages 83 to 189, which comprise the Consolidated and Company statements of financial position as at 31 December 2019, and the Consolidated and Company statements of profit or loss and other comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements 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 2019, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

<table>
<tr><th colspan="2">Impairment on loan and advances to customers in the consolidated financial statements</th></tr>
<tr><td colspan="2">See accounting policy note 3(i)(iv) - Significant accounting policies and disclosure Note 18 – Loans and advances to customers.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Impairment of loans and advances to customers is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment.</td><td>Our audit procedures in this area included, among others:
• Involving our own IFRS 9 and data analytics specialists in evaluating the appropriateness of the Group's impairment methodologies and independently assessing the accuracy of PD, LGD and EAD computations and assumptions.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Impairment on loan and advances to customers in the consolidated financial statements– continued	
See accounting policy note 3(j)(vi) - Significant accounting policies and disclosure Note 18 – Loans and advances to customers.	
The key audit matter	**How the matter was addressed in our audit**
The key areas where we identified greater levels of management judgment and therefore increased levels of audit focus are: ***Economic scenarios*** IFRS 9 requires Expected Credit Loss (ECL) to be measured on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL. ***Significant Increase in Credit Risk ('SICR')*** The criteria selected to identify a significant increase in credit risk is a key area of judgment within the Group's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed. ***Complex ECL models*** Inherently, judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD models used in the different loan portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgmental aspect of the Group's ECL modelling approach.	• Involving our own financial risk management specialists in: assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them; assessing the economic variables used which included agreeing them to independent external sources; and assessing the overall reasonableness of the economic forecasts applied by the Group; and reviewing management considerations of the ECL impact of economic uncertainty in the market. • Selecting a sample of facilities from the Group's loan book and performing tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS; • Performing credit assessment on various categories of loans to ascertain and challenge the reasonableness of the forecast of recoverable cash flows, realisation of collateral, and other sources of repayment for defaulted loans. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environments; • Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied; • Evaluating the appropriateness of the Group's IFRS 9 methodologies including the SICR criteria used; • Testing the impairment calculations to check if the correct parameters – PD, LGD and EAD were determined by considering local economic/portfolio factors; and • Assessing whether the disclosures appropriately disclose the key judgments and assumptions used in determining the expected credit losses.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Provisions and contingent liabilities in respect of litigations in consolidated financial statements	
See accounting policy note 3 (m) – Significant accounting policies and disclosure note 37 - Contingent liabilities.	
The key audit matter	**How the matter was addressed in our audit**
The Group is subject to claims, which could have an impact on the results if the potential exposures were to materialise. In the normal course of business, potential exposures may arise from general legal proceedings, product liability, guarantees, and regulator investigations/reviews. Whether there is a liability is inherently uncertain, the amounts involved are potentially significant and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective. The directors apply judgment when considering whether, and how much, to provide for the potential exposure of each litigation and/or claim. We determined this areas to be a key audit matter given the complexity and judgment necessary to determine whether to provide for, disclose or not disclose certain exposures.	• Our audit procedures in this area included, among others: • Performing control assessment of the processes and controls over claims and oversight of litigations by the directors. We held discussions with the in-house legal counsel, including after the year end, to discuss the nature of all significant on-going claims and legal cases, and to validate the latest status and accounting and disclosure implications; • Obtaining formal legal confirmations from the Group's external legal counsel for significant litigation matters to ensure completeness of provisions and disclosures, where required, and also analysing correspondence with regulators; and • Assessing 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 recognised, evaluating the adequacy and completeness of the Group's disclosures made in relation to contingent liabilities.
Information Technology (IT) systems and control in consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
The Group's financial accounting and reporting processes are highly dependent on the automated controls over the information systems such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. The interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems.	With the support of our IT specialists, our audit procedures in this area included, among others: • With the support of our IT specialists, 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; and

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC (CONTINUED)

Report on the audit of the financial statements (Continued)

Key audit matters (continued)

Information Technology (IT) systems and control in consolidated financial statements– continued	
The key audit matter	**How the matter was addressed in our audit**
We determined this areas to be a key audit matter due to the complexity of the IT infrastructure which required a significant amount of our audit effort.	• Testing the design and operating effectiveness of automated controls critical to financial reporting (application controls). For any identified deficiencies, we tested the design and effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures.
Significant transaction – Transfer of assets and liabilities in consolidated financial statements	
See accounting policy note 3(r) – Significant accounting policies and disclosure note 21- Investment in Property Fund	
The key audit matter	**How the matter was addressed in our audit**
In June 2019, HF Development and Investments Limited (HFDI), a subsidiary of HF Group Plc, and Crescent Finco LLP (a lender) formed a limited liability partnership property fund named Housing Finance Development and Investment LLP. HFDI Limited transferred certain assets and borrowings into the property fund resulting in both parties holding an investment in the property fund. The assets owned by the property fund will be realized progressively and the proceeds distributed to HFDI Limited and Crescent Finco in accordance with the partnership agreement. The areas that required particular audit attention included our assessment of management's accounting treatment of the related party transaction and consideration of the contractual terms of the agreements. This transaction required particular audit attention in our audit due to the complexity of the accounting considerations based on the contractual agreements.	Our audit procedures in this area included, among others: • Inquiring with management and those charged with governance to understand the business rationale of the related party transaction and obtaining an understanding of the controls that management established to authorize and approve the transaction; • Inspecting the various agreements entered into between the parties to the transaction; • Inspecting minutes of meetings of owners, management and those charged with governance, including any relevant committees of these groups. • Obtaining an understanding of the entity's selection and application of accounting policies to the transaction and the resultant investment in the property fund; and, • Assessing whether the disclosures appropriately disclose the transaction.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC (CONTINUED)

Report on the audit of the financial statements (Continued)

Other information

The directors are responsible for the other information. The other information comprises the *Report of Directors, the Directors' Remuneration Report and the Statement of Directors' Responsibilities* but does not include the consolidated and separate financial statements and auditor's report, which we obtained prior to the date of this auditor's report, and the other information to be included in the *Annual Report and Financial statements*, which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work that we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 75, the directors are responsible for the preparation of consolidated and separate 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 have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

As part of an audit in accordance with ISAs, we exercise professional 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's and Company's internal control;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HF GROUP PLC (CONTINUED)

Report on the audit of the financial statements (Continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern; and
- 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 43 and 48 is consistent with the consolidated and separate financial statements;

(ii) In our opinion, the auditable part of the directors' remuneration report on pages 49 and 50 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) Our report on the consolidated and separate financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is FCPA Eric Aholi – P/1471.

KPMG Kenya

Certified Public Accountants

PO Box 40612 – 00100

Nairobi

Date: 31 March 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Kshs'000	2018 Kshs'000
Interest income	7	5,116,580	6,045,521
Interest expense	7	(3,148,869)	(3,779,848)
Net interest income		**1,967,711**	**2,265,673**
Impairment losses on financial instruments	18(b)	(298,969)	(447,700)
Net interest income after impairment losses on financial instruments		**1,668,742**	**1,817,973**
Non-interest income	8	1,403,202	1,319,057
Non-interest expenses	9	(3,211,874)	(3,788,715)
Share of profit in joint ventures	19(b)	2,128	8,941
Loss before taxation	10	**(137,802)**	**(642,744)**
Income tax expense	11	27,694	44,526
Net loss after tax for the year		(110,108)	(598,218)
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Revaluation surplus	34(c)	-	860
Related tax		-	-
		-	**860**
Movement in fair value reserve on FVOCI investments	34(e)	104,247	60,379
Related tax	34(e)	(31,274)	(18,114)
		72,973	42,265
Total comprehensive income for the year		**(37,135)**	**(555,093)**
Annualised basic and diluted earnings per share – Kshs	12	**(0.29)**	**(1.56)**
Weighted earnings per share	12	**(0.29)**	**(1.63)**
Dividends per share – Kshs	13(a)	**-**	**-**
Number of shares (thousands)	34(a)	**384,614**	**384,614**
Weighted number of shares (thousands)	12	**384,614**	**367,135**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Kshs'000	2018 Kshs'000
Interest income	7	-	605
Net interest income		-	605
Non-interest income	8	177,945	387,934
Impairment losses on financial instruments	18 (b)	(4,612)	(39,800)
Non-interest expenses	9	(217,900)	(319,141)
(Loss)/profit before taxation	**10**	**(44,567)**	**29,598**
Income tax expense	11(a)	10,253	11,904
(Loss)/profit after tax		**(34,314)**	**41,502**
Other comprehensive income		-	-
Total comprehensive income		**(34,314)**	**41,502**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

ASSETS	Note	2019 Kshs'000	2018 Kshs'000
Cash and balances with banks	15	2,982,324	2,917,083
Placements with other banks	16	803,923	1,904,695
Investment in government securities	17	4,602,869	3,212,140
Loans and advances to banks	18(a)	227,770	253,404
Loans and advances to customers (Net)	18(a)	38,551,968	43,186,287
Investment in joint ventures	19(b)	1,731,214	1,729,086
Other assets	20	910,648	411,411
Investment in property fund	21	788,040	-
Investment property	31	1,256,768	733,665
Housing development projects	22	514,422	2,537,972
Property and equipment	23(a)	1,218,406	1,345,313
Right of use asset	38	635,125	-
Prepaid operating lease rentals	24	-	43,284
Intangible assets	25	863,505	1,007,553
Tax recoverable	11(b)	151,220	311,739
Deferred tax asset	26(a)	1,216,715	994,594
TOTAL ASSETS		**56,454,917**	**60,588,226**
LIABILITIES			
Deposits from customers	28	37,399,987	34,720,824
Deposits from banks	29	528,250	578,216
Other liabilities	30	2,477,638	1,421,148
Tax payable	11(b)	-	3
Dividends – payable	13(b)	3,100	28,055
Borrowings	32	5,803,723	10,416,938
Corporate bond	33	-	3,051,811
		46,212,698	**50,216,995**
SHAREHOLDERS' EQUITY			
Share capital	34(a)	1,923,071	1,923,071
Share premium		4,343,512	4,343,512
Statutory credit risk reserve		2,668,069	1,885,489
Other reserves		948,915	875,942
Retained earnings		307,902	1,292,467
Shareholders' income notes and loans	35	50,750	50,750
		10,242,219	**10,371,231**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**56,454,917**	**60,588,226**

The financial statements set on pages 83 to 189 were approved and authorised for issue by the Board of Directors on 30 March 2020 and signed on its behalf by:

Steve Mainda: ______________
Chairman

Robert Kibaara: ______________
Group CEO

Felister Kembi: ______________
Director

Regina Anyika: ______________
Company Secretary

The notes set out on pages 92 to 189 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

ASSETS	Note	2019 Kshs'000	2018 Kshs'000
Cash and balances with banks	15	31,156	34,167
Investment in subsidiaries	19(a)	9,958,782	9,958,782
Other assets	20	70,479	97,113
Property and equipment	23(b)	549	695
Tax recoverable	11(b)	34,157	25,133
Deferred tax asset	26(b)	26,107	15,854
TOTAL ASSETS		**10,121,230**	**10,131,744**
LIABILITIES			
Other liabilities	30	300,177	251,422
Dividends – payable	13(b)	3,100	28,055
		303,277	**279,477**
SHAREHOLDERS' EQUITY			
Share capital	34(a)	1,923,071	1,923,071
Share premium		4,343,512	4,343,512
Retained earnings		3,551,370	3,585,684
Proposed dividends		-	-
		9,817,953	9,852,267
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,121,230**	**10,131,744**

The financial statements set on pages 83 to 189 were approved and authorised for issue by the Board of Directors on 30 March 2020 and signed on its behalf by:

Steve Mainda:__________
Chairman

Robert Kibaara: __________
Group CEO

Felister Kembi:__________
Director

Regina Anyika: __________
Company Secretary

The notes set out on pages 92 to 189 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital Kshs '000	Revaluation reserve Kshs '000	Share premium Kshs '000	Statutory credit risk reserve Kshs '000	Retained earnings Kshs '000	Fair value reserve Kshs '000	Total Kshs '000
At 31 December 2018	**1,923,071**	**881,903**	**4,343,512**	**1,885,489**	**1,292,467**	**(5,961)**	**10,320,481**
Adjustments on initial application of IFRS 16 (Note 3(p)(i)(iv))	-	-	-	-	(131,253)	-	(131,253)
Related deferred tax (Note 3(p)(i)(iv))	-	-	-	-	39,376	-	39,376
Restated balance at 1 January 2019	**1,923,071**	**881,903**	**4,343,512**	**1,885,489**	**1,200,590**	**(5,961)**	**10,228,604**
Total comprehensive income							
Net loss after tax	**-**	**-**	**-**	**-**	**(110,108)**	**-**	**(110,108)**
Other comprehensive income							
Change in fair value of debt investments at FVOCI	-	-	-	-	-	104,247	104,247
Deferred tax on change in fair value	-	-	-	-		(31,274)	(31,274)
Transfer to statutory credit risk reserve	-	-	-	782,580	(782,580)	-	-
Total other comprehensive income	**-**	**-**	**-**	**782,580**	**(782,580)**	**72,973**	**72,973**
Total comprehensive income	**-**	**-**	**-**	**782,580**	**(892,688)**	**72,973**	**(37,135)**
At 31 December 2019	**1,923,071**	**881,903**	**4,343,512**	**2,668,069**	**307,902**	**67,012**	**10,191,469**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	Share capital Kshs '000	Revaluation reserve Kshs '000	Share premium Kshs '000	Proposed dividends Kshs '000	Statutory credit risk reserve Kshs '000	Retained earnings Kshs '000	Fair value reserve Kshs '000	Total Kshs '000
At 1 January 2018	**1,747,683**	**881,043**	**4,342,912**	**122,359**	**356,824**	**3,594,141**	**(48,226)**	**10,996,736**
Total comprehensive income								
Net loss after tax	-	-	-	-	-	(598,218)	-	(598,218)
Other comprehensive income								
Revaluation surplus	-	860	-	-	-	-	-	860
Net gain on investments in financial instruments	-	-	-	-	-	-	60,379	60,379
Related tax	-	-	-	-	-	-	(18,114)	(18,114)
Transfer to statutory reserve	-	-	-	-	1,528,665	(1,528,665)	-	-
Total other comprehensive income	**-**	**860**	**-**	**-**	**1,528,665**	**(1,528,665)**	**42,265**	**43,125**
Total comprehensive income	**-**	**860**	**-**	**-**	**1,528,665**	**(2,126,883)**	**42,265**	**(555,093)**
Transactions with owners, recorded directly in equity								
Employee share ownership plan	600	-	600	-	-	-	-	1,200
Dividend paid – 2017		-	-	(122,359)	-	(3)	-	(122,362)
Bonus share issue	174,788	-	-	-	-	(174,788)	-	-
Total transactions with owners for the year	**175,388**	**-**	**600**	**(122,359)**	**-**	**(174,791)**	**-**	**(121,162)**
At 31 December 2018	**1,923,071**	**881,903**	**4,343,512**	**-**	**1,885,489**	**1,292,467**	**(5,961)**	**10,320,481**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital Kshs '000	Share premium Kshs '000	Retained earnings Kshs '000	Total Kshs '000
At 31 December 2019	**1,923,071**	**4,343,512**	**3,585,684**	**9,852,267**
Total comprehensive income				
Net loss after tax	-	-	(34,314)	(34,314)
Total comprehensive income	**-**	**-**	**(34,314)**	**(34,314)**
At 31 December 2019	**1,923,071**	**4,343,512**	**3,551,370**	**9,817,953**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital Kshs '000	Share premium Kshs '000	Proposed dividends Kshs '000	Retained earnings Kshs '000	Total Kshs '000
Balance at 1 January 2018	**1,747,683**	**4,342,912**	**122,359**	**3,718,973**	**9,931,927**
Total comprehensive income					
Net profit after tax	-	-	-	41,502	41,502
Total comprehensive income	**-**	**-**	**-**	**41,502**	**41,502**
Transactions with owners, recorded directly in equity					
Employee share ownership plan	600	600	-	-	1,200
Dividend paid – 2017	-	-	(122,359)	(3)	(122,362)
Bonus share issue	174,788	-	-	(174,788)	-
Total transactions with owners for the year	**175,388**	**600**	**(122,359)**	**(174,791)**	**- (121,162)**
At 31 December 2018	**1,923,071**	**4,343,512**	**-**	**3,585,684**	**9,852,267**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Kshs'000	2018 Kshs'000
Net cash flows from operating activities	**36(a)**	**5,205,205**	**2,204,386**
INVESTING ACTIVITIES			
Purchase of property and equipment	23	(39,220)	(11,975)
Investment in joint ventures		-	1,210
Investment in Investment in Property Fund		(60,000)	-
Proceeds from sale of equipment		16,934	389
Additions to intangible assets	25	(67,870)	(135,397)
Net cash used in investing activities		**(150,156)**	**(145,773)**
FINANCING ACTIVITIES			
Receipts of borrowed funds	32(b)	-	952,156
Payments of borrowed funds	32(b)	(3,020,004)	(3,522,081)
Payment of corporate bond	33	(3,051,811)	
Share ownership plan receipts	27	-	1,200
Dividend paid	13(b)	(24,955)	(143,365)
Principal lease payments	38(iii)	(129,872)	-
Net cash used in financing activities		**(6,226,642)**	**(2,712,090)**
Net decrease in cash and cash equivalents	36(b)	**(1,171,593)**	**(653,477)**
Cash and cash equivalents as at 1 January		3,009,372	3,662,849
Cash and cash equivalents as at 31 December	36(b)	**1,837,779**	**3,009,372**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Kshs' 000	2018 Kshs' 000
Net cash flows from operating activities	36(c)	**22,202**	**148,213**
INVESTING ACTIVITIES			
Purchase of equipment	23(b)	(258)	(265)
Net cash outflow from investing activities		**(258)**	**(265)**
FINANCING ACTIVITIES			
Employee share ownership	27	-	1,200
Dividend paid	13(b)	(24,955)	(143,365)
Net cash outflow from financing activities		**(24,955)**	**(142,165)**
(Decrease)/increase in cash and cash equivalents	36(d)	**(3,011)**	**5,783**
Cash and cash equivalent at 1 January		34,167	28,384
Change in the year		(3,011)	5,783
Cash and cash equivalent at 31 December	36(d)	**31,156**	**34,167**

The notes set out on pages 92 to 189 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

HF Group Plc 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 4. The consolidated financial statements comprise of the Company and its subsidiaries (together referred as the "Group" or "Consolidated" and individually referred 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

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

(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.

Details of the Group's significant accounting policies are included in Notes 3.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. Resultant changes to significant accounting policies are described in Note 3.

Due to the transition method chosen by the Group in applying IFRS 16, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

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 measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

2. BASIS OF PREPARATION (Continued)

(b) Basis of measurement (continued)

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (Kshs), which is the Group's functional currency. Except as otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (Kshs '000).

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 5.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. BASIS OF PREPARATION (Continued)

(e) Going concern

As at 31 December 2019, HFC Limited, the banking subsidiary of the Group, had breached the statutory total capital ratio which stood at 14.20% (minimum requirement by Central Bank of Kenya is 14.50%).

The liquidity ratio also fell below the minimum requirement for some months during the year.

As at 31 December 2019, HFC Limited had breached some covenants with various lenders as highlighted in Note 32.

Management has undertaken the below initiatives to address the above issues:

(i) Liquidity ratio

HFC Limited has instituted an aggressive deposit mobilization strategy which will be complimented by an internal reward based deposit mobilization campaign. This is expected to have a net growth in customer deposits which shall improve liquid funds position. Loan collections continue to be pursued as well as additional tier 2 capital, which shall also help in improving this ratio.

(ii) Statutory capital ratio

HFC Limited is negotiating for additional tier 2 capital with investors and due diligence exercise is ongoing. The targeted amount is Kshs1 billion in tier 2 capital which is expected by end of April 2020 once the due diligence process has been completed. This will regularize the total capital ratio moving forward.

(iii) Loan covenants

Negotiations on waivers of the breached covenants are currently ongoing. However, HFC Limited continues to meet its payment obligations as and when they fall due. No payment default was experienced during the period.

(iv) Strategy

Management has put in place a turnaround strategy aimed at improving the liquidity position, capital and loan asset quality. In this line, new business units namely retail, Small and Medium Enterprises (SMEs), treasury and institutional banking have been revamped and have become a key strategic pillar in improving deposit mobilization and generation of revenue.

HFC Limited is currently negotiating with the various investors for additional tier 2 capital and due diligence is currently ongoing. This will improve the capital ratio as well as the liquidity ratio.

HFC Limited has deliberately focused on improving the non-performing loans levels and has partnered with borrowers for joint marketing of properties, negotiating for full and final settlements, rescheduling of repayments and auction as a last resort. These measures are bearing fruits and the level of non-performing loans has reduced compared to the previous year.

Conclusion

The directors having taken into account the initiatives above and information at hand, are confident that the going concern assumption is appropriate in the preparation of these financial statements. The financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented on these financial statements:

(a) Revenue recognition

(i) Interest

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI included:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Other interest income presented in the statement of profit or loss and OCI included interest income on finance leases.

- Interest expense presented in the statement of profit or loss and OCI included:
- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Group's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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 estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue recognition (continued)

(i) Interest - continued

Effective interest rate

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and Other Comprehensive Income (OCI) includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue recognition (continued)

(i) Interest - continued

Presentation (continued)

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;
- negative interest on financial assets; and
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL

(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.

Sale of houses

Revenue is measured based on the consideration specified in a contract with a customer. This core principle is delivered in the following a five-step model framework:

- 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.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group recognizes revenue upon fulfillment of the above criteria and is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over houses to a customer. Revenue is measured net of discounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions

Transactions in foreign currencies during the period 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 profit or loss. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of the transaction.

(c) 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, every three years, by external independent valuers. Purchased software that is integral to the functioning of related equipment is capitalized 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 recognized 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 derecognized. The cost of day to day servicing of property and equipment is recognized 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 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.

(iii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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 (8) years, on a straight line basis from the date the software is available for use.

(e) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and direct overheads wherever appropriate on a weighted average basis, incurred in acquiring inventories or to bring them to the existing location and condition. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of the realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Allowance is made for obsolete, slow moving and defective inventories.

(f) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

(i) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases - continued

Policy applicable from 1 January 2019 - continued

(i) Group acting as a lessee - continued

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note 3(j) (iii) and (vi)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases - continued

Policy applicable before 1 January 2019 (continued)

(i) Group acting as a lessee (continued)

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(g) Employee benefits

(i) Employee retirement benefits plan

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

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

(ii) Accrued leave

Accrual for annual leave is made as employees earn it and reduced when taken.

(iii) Termination benefits

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Employee benefits (continued)

(iv) Short-term benefits

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

(v) Provisions for liability

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(h) Taxation

Tax on the operating results for the period comprises current tax and change in 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 period, 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 period as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognized 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; 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits held at call, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognises loans and advances to customers, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including regular way purchases and sales of financial assets) 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. The fair value of a financial instrument at initial recognition is generally its transaction price.

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

(ii) Classification

Financial assets

The Group classifies its financial assets on initial recognition into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

Financial liabilities

Under IFRS 9, fair value changes of financial liabilities are generally presented as follows:

- the amount of change in fair value that is attributable to changes in credit risk of the liability is presented in OCI and;
- the remaining amount of change in fair value is presented in profit or loss.

The Group classifies all financial liabilities as subsequently measured at amortised cost.

Customer deposits, balances due to banking institutions and other liabilities are classified at amortised cost.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group recognises cash and balances with Central Bank, placements with other banks, investments in government securities, loans and advances to customers and other assets at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification (continued)

Fair Value through Other Comprehensive Income (FVOCI) – Debt

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and Interest (SPPI) on the principal amount outstanding.

The Group has no financial assets classified at FVOCI.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis.

Fair Value through Profit or Loss (FVTPL)

All other financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group does not have financial assets classified at FVTPL.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment of whether contractual cash flows are solely payments of principal and Interest (SSPI)

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification (continued)

Assessment of whether contractual cash flows are solely payments of principal and Interest (SSPI)

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

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

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

The Group also provides floating interest rate loans. The Group has determined that the contractual cash flows of these loans and advances are SPPI because the interest is not leveraged and though may vary will still represent consideration for time value of money or other basic lending.

De minimis

A contractual cash flow characteristic does not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows.

To make this determination, the Group considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(ii) Classification (continued)

Non-recourse loans (continued)

Business model assessment

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

The information considered includes:

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

(iii) De-recognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on de-recognition of such securities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(iii) De-recognition (continued)

Financial assets (continued)

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the de-recognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

(iv) 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.

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 3(j) (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on de-recognition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(v) Modifications of financial assets and financial liabilities (continued)

Financial assets - continued

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in de-recognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument

(vi) Measurement of expected credit loss

IFRS 9 replaced the previous ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model.

The Group recognises loss allowances for ECL on the following financial instrument groups that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group’s loans and advances to customers, cash and balances with Central Bank, investments in government securities, placements with other banking institutions and other assets;
- Loan commitments and financial guarantee contracts issued - this applies to the Group’s off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility; and
- Lease receivables (disclosed as part of trade and other receivables).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(vi) Measurement of expected credit loss

No impairment loss is recognised on equity investments.

The Group recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Group recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs.

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

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

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(vii) Credit-impaired financial assets

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

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

(viii) Significant increase of credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or Long Term Expected Credit Loss (LTECL), the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group considers an exposure to have significantly increased in credit risk when there is a relative change in probability of default since origination, and certain other criteria, such as 30-day past due and watch list status. There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that some events are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

(ix) Establishing groups of assets with similar credit risk characteristics

The Group segments its lending products into portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types) as well as borrower characteristics. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(x) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see 3(j)(iii) and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4(a)).
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

(k) Impairment of non-financial assets

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

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 reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Dividends

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

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(o) 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 period. During the period there were no significant outstanding shares with dilutive potential.

(p) New standards, amendments and interpretations

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2019.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements cycle (2015-2017)	1 January 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

Except for IFRS 16 Leases, the other new standards and amendments did not have significant impact on the Group's financial statements.

IFRS 16 Leases

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IFRS 16 Leases (continued)

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

(ii) As a lessee

As a lessee, the Group leases assets including leasehold land, office spaces and IT equipment. The Group previously classified leases as operating leases under IAS 17 based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right of use assets and lease liabilities for most of these leases – i.e. these leases are on balance sheet. Further, the Group has entered a new lease in the year ended 31 December 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Group has elected to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IFRS 16 Leases (continued)

(iii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(iv) Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 January 2019 Kshs'000
Right of use assets	442,770
Lease liabilities	(574,023)
	(131,253)
Deferred tax asset	39,376
Retained earnings impact	**(91,877)**

For the impact of IFRS 16 on profit or loss for the period, see Note 38.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied for leases in Kshs is 12.76%, while the weighted-average rate applied for leases in USD is 7.67%.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IFRS 16 Leases (continued)

(iv) Impact on financial statements (continued)

	1 January 2019 Kshs '000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	271,960
Discounted using the incremental borrowing rate at 1 January 2019	209,347
Extension option reasonably certain to be exercised	364,676
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 January 2019	574,023

(ii) New amendments, standards and interpretations in issue but not yet effective for the year ended 31 December 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early. These are summarised below:

New standard and amendment	Effective for annual periods beginning on or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
IFRS 17 Insurance contracts	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). These are explained below and not expected to have a significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New amendments, standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (continued)

- IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgment. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test

  The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

- Substantive process

  If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

  The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group is assessing the potential impact on its financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend

Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New amendments, standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (continued)

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendment also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

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.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) New amendments, standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (continued)

IFRS 17 Insurance Contracts (continued)

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Company (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 Company 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 Company 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 will not affect the amounts and disclosures of the Group's financial statements.

The Group did not early adopt new or amended standards in the year ended 31 December 2019.

(q) 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.

(i) Recognition and measurement

Items of investment property are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the company. Ongoing repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Investment property (continued)

(iii) 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.

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.

(iv) Disposal of investment property

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

(r) Significant unusual transactions

Significant transactions include, but are not limited to, material acquisitions, dispositions, joint venture agreements, corporate reorganization, restructuring or transactions outside the normal course of business of the Group. Such transactions are usually entered into at arm's length and to the benefit of the Group. They are ordinarily approved by the board of directors upon satisfaction that the transactions is to the best interest of the group and a due diligence has been conducted to ensure that the group will be compliant with the provisions of the law after adopting the transaction. Where regulatory approval is required before implementing the transaction, the Group obtains the respective regulatory authority before effecting the transactions. The transactions are reported and disclosed in the financial statements as per the requirement of the International Financial Reporting Standards (IFRS).

4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

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

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(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.

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

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

Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

Definition of default

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and intercompany balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group

The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group's rating and PD estimation process

The Group rates its key portfolios from 1 to 3 using the Group's model rating. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from S&P Agency.

PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the obligor's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

For loans portfolios, LGD values are assessed at least every three months by account managers and reviewed and approved by the Group's credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Group estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and purchased or originated credit impaired (POCI) IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that some events are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

The Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The treasury, trading and interbank relationships (such as due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI)
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's loan portfolio
- Stage 1 and 2 Retail mortgages, consumer lending and construction projects
- Purchased POCI exposures managed on a collective basis

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of inputs to the ECL model under multiple economic scenarios

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. On the basis of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities, other organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following ranges of key indicators;

	2020		
	Base	Upside	Downside
	Weighting		
Macro-economic variable	90%	5%	5%
Housing price index	(1.03%)	1.19%	3.24%
Public debt to GDP	62.05%	63.97%	60.13%

The correlation of the above factors with the Group's non-performing loans (NPL %) were also used to determine whether these factors should be lagged.

Based on this analysis, Savings Rate was lagged by 3 months and Public debt to GDP ratio was lagged by 6 months.

The Group's non-performing loans (NPL%) was a reasonable approximation to the Group's default risk. The correlation between the Group's non-performing loans (NPL%) with the above macroeconomic factors was then inferred to the Group's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of inputs to the ECL model under multiple economic scenarios (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Contingent liabilities and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Contingent liabilities and commitments (continued)

The nominal values of such commitments are listed below: -

	2019 Kshs'000	2018 Kshs'000
Undrawn overdrafts	3,221	485,125
Letters of credit	9,591	6,603
Guarantee	82,351	178,157
	95,163	**669,885**
Allowance for impairment losses	**622**	**10,462**

The loss allowance on outstanding commitments and financial guarantees is carried in other liabilities and therefore no impact on the carrying amounts.

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is as follows:

Gross carrying amount

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Credit quality analysis on guarantees and other commitments				
Low risk	91,942	-	-	91,942
High risk	-	3,221	-	3,221
Balance at 31 December 2019	**91,942**	**3,221**	**-**	**95,163**
Loss allowance	(619)	(3)	-	(622)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment losses on guarantees and other commitments (continued)

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Credit quality analysis on guarantees and other commitments				
Low risk	168,057	-	-	168,057
High risk	-	501,828	-	501,828
Balance at 31 December 2018	**168,057**	**501,828**	**-**	**669,885**
Loss allowance	(981)	(9,481)	-	(10,462)

Impairment losses

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Impairment losses on guarantees and other commitments				
Balance at 1 January	981	9,481	-	10,462
Transfer to 12 months ECL (Stage 1)				
Transfer to Lifetime ECL not credit impaired (Stage 2)				
Net re- measurement of loss allowance	(362)	(9,478)	-	(9,840)
New financial assets originated or purchased	-	-	-	-
Financial assets derecognised	-	-	-	-
Balance at 31 December 2019	**619**	**3**	**-**	**622**
Impairment losses on guarantees and other commitments				
Balance at 1 January 2018	**-**	**-**	**-**	**-**
Balance at 1 January	1,880	8,048	-	9,928
Transfer to 12 months ECL (Stage 1)	-	-	-	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	(71)	71	-	-
Transfer to lifetime ECL credit impaired (Stage 3)	-	-	-	-
Net re-measurement of loss allowance	(285)	(71)	-	(356)
New financial assets originated or purchased	33	1,499	-	1,532
Financial assets derecognised	(576)	(66)	-	(642)
Balance at 31 December 2018	**981**	**9,481**	**-**	**10,462**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment losses on guarantees and other commitments (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

Gross carrying amount

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Credit quality analysis on loans and advances				
Normal	26,351,198	-	-	26,351,198
Watch	-	3,719,574	-	3,719,574
Substandard	-	-	1,954,512	1,954,512
Doubtful	-	-	10,361,491	10,361,491
Balance at 31 December 2019	**26,351,198**	**3,719,574**	**12,316,003**	**42,386,775**
Less loss allowance	(42,984)	(86,683)	(3,477,370)	(3,607,037)
Net carrying amount	**26,308,214**	**3,632,891**	**8,838,633**	**38,779,738**

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Credit quality analysis on loans and advances				
Normal	28,026,927	-	-	28,026,927
Watch	-	5,244,224	-	5,244,224
Substandard	-	-	2,712,455	2,712,455
Doubtful	-	-	10,621,901	10,621,901
Balance at 31 December 2018	**28,026,927**	**5,244,224**	**13,334,356**	**46,605,507**
Less loss allowance	(67,601)	(110,058)	(2,987,712)	(3,165,371)
Net carrying amount	**27,959,326**	**5,134,166**	**10,346,644**	**43,440,136**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment allowance for loans and advances

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances.

2019:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Loans and advances to customers at amortised cost	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Balance at 1 January 2019	68,045	110,058	2,987,712	3,165,815
Transfer to 12 months ECL (Stage 1)	(12,634)	3,278	9,356	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	37,530	(76,113)	38,583	-
Transfer to Lifetime ECL credit impaired (Stage 3)	65,627	105,710	(171,337)	-
Net re-measurement of loss allowance	(122,907)	(37,695)	859,025	698,423
New financial assets originated or purchased	16,253	2,559	22,530	41,342
Financial assets derecognised	(8,930)	(21,114)	(268,499)	(298,543)
Balance at 31 December 2019	**42,984**	**86,683**	**3,477,370**	**3,607,037**

2018:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Loans and advances to customers at amortised cost	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Adjusted balance at 1 January 2018	301,604	105,998	2,844,920	3,252,522
Transfer to 12 months ECL (Stage 1)	107,505	(22,031)	(85,474)	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	(48,925)	159,088	(110,163)	-
Transfer to Lifetime ECL credit impaired (Stage 3)	(112,755)	(368,782)	481,537	-
Net re-measurement of loss allowance	15,112	224,234	32,408	271,754
New financial assets originated or purchased	9,197	12,321	96,486	118,004
Financial assets derecognised	(204,137)	(770)	(272,002)	(476,909)
Balance at 31 December 2018	**67,601**	**110,058**	**2,987,712**	**3,165,371**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment allowance for loans and advances (continued)

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

	2019 Kshs'000	2018 Kshs'000
Against impaired accounts	18,182,417	23,647,226
Against accounts not impaired	97,252,959	114,899,354
	115,435,376	**138,546,580**

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

	2019 Kshs'000	2018 Kshs'000
Properties	115,161,345	138,217,734
Secured by cash	274,031	328,846
	115,435,376	**138,546,580**

Impairment losses on other assets

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

2019 Other assets	**Stage 1 Kshs'000**	**Stage 2 Kshs'000**	**Stage3 Kshs'000**	**Total Kshs'000**
Low credit risk	**450,809**	**307**	**14,669**	**465,785**
ECL allowance as at 1 January 2019	143,576	261	(6,178)	137,659
Financial assets derecognised	(18)	(261)	(786)	(1,065)
New assets originated during the year	-	4	581	585
Net re-measurement	(48,198)	-	7,288	(40,910)
Balance as at 31 December 2019	**95,360**	**4**	**905**	**96,269**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment losses on other assets (continued)

2018 **Other assets**	**Stage 1** **Kshs'000**	**Stage 2** **Kshs'000**	**Stage3** **Kshs'000**	**Total** **Kshs'000**
Low credit risk	**187,783**	**1,383**	**16,267**	**205,433**
ECL allowance as at 1 January 2018	63,427	432	704	64,563
Financial assets derecognised	-	(171)	-	(171)
New assets originated during the year	(11)	-	6,882	6,871
Net re-measurement	66,396	-	-	66,396
Balance as at 31 December 2018	**129,812**	**261**	**7,586**	**137,659**

Balances with commercial banks

The following table sets out credit quality analysis for balances with commercial banks:

Balances with commercial banks at amortised cost

2019	**Stage 1** **Kshs'000**	**Stage 2** **Kshs'000**	**Stage 3** **Kshs'000**	**Total** **Kshs'000**
Low credit risk	136,170	-	-	136,170
Loss allowance	(566)	-		(566)
Net carrying amount	**135,604**	**-**	**-**	**135,604**

2018	**Stage 1** **Kshs'000**	**Stage 2** **Kshs'000**	**Stage 3** **Kshs'000**	**Total** **Kshs'000**
Low credit risk	137,373	-		137,373
Loss allowance	(642)	-		(642)
Net carrying amount	**136,731**	**-**		**136,731**

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Balances with commercial banks (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for balances with commercial banks.

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
ECL allowance as at 1 January 2019	642	-	-	642
Net remeasurement	(76)	-	-	(76)
Balance as at 31 December 2019	**566**	**-**	**-**	**566**

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
ECL allowance as at 1 January 2018	508	-	-	508
Net remeasurement	134	-	-	134
Balance as at 31 December 2018	**642**	**-**	**-**	**642**

Balances with Central Bank of Kenya

An analysis of credit quality analysis in the gross carrying amount and the corresponding ECL allowances is, as follows:

2019 Balances with Central bank of Kenya at amortised cost	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Low credit risk	2,287,779	-	-	2,287,779
Balance as at 31 December	**2,287,779**	**-**	**-**	**2,287,779**
Less: loss allowance	-	-	-	-
Net carrying amount	**2,287,779**	**-**	**-**	**2,287,779**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Balances with central banks of Kenya (continued)

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Low credit risk	2,423,468	-	-	2,423,468
Balance as at 31 December	**2,423,468**	**-**	**-**	**2,423,468**
Less: loss allowance	-	-	-	-
Net carrying amount	**2,423,468**	**-**	**-**	**2,423,468**

Placements with other banks

An analysis of credit quality analysis in the gross carrying amount and the corresponding ECL allowances is, as follows:

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Low credit risk	804,645	-	-	804,645
Less: loss allowance	(722)	-	-	(722)
Net carrying amount	**803,923**	**-**	**-**	**803,923**

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Low risk	1,904,995	-	-	1,904,995
Less: loss allowance	(300)	-	-	(300)
Net carrying amount	**1,904,695**	**-**	**-**	**1,904,695**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Placements with other banks (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for balances with placement with other banks.

Loss allowance

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
ECL allowance as at 1 January 2019	(300)	-	-	(300)
Net remeasurement	(422)	-	-	(422)
Balance as at 31 December 2019	**(722)**	**-**	**-**	**(722)**

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
ECL allowance as at 1 January 2019	601	-	-	601
Net remeasurement	(301)	-	-	(301)
Balance as at 31 December 2018	**300**	**-**	**-**	**300**

Government securities

An analysis of credit quality analysis in the gross carrying amount and the corresponding ECL allowances is, as follows:

2019	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Held at amortised cost - low credit risk	628,621	-	-	628,621
Held at FVOCI - low credit risk	3,974,248	-	-	3,974,248
Balance as at 31 December	**4,602,869**	**-**	**-**	**4,602,869**
Net carrying amount	**4,602,869**	**-**	**-**	**4,602,869**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Government securities **(continued)**

2018	Stage 1 Kshs'000	Stage 2 Kshs'000	Stage 3 Kshs'000	Total Kshs'000
Held at amortised cost - low risk	515,801	-	-	515,801
Held at FVOCI - low risk	2,696,339	-	-	2,696,339
Balance as at 31 December	**3,212,140**	**-**	**-**	**3,212,140**
Net carrying amount	**3,212,140**	**-**	**-**	**3,212,140**

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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 period were as follows:

	2019	2018
At 31 December	20.80%	21.00%
Average for the year	19.07%	20.00%
Maximum for the year	21.24%	22.90%
Minimum for the year	15.53%	16.30%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) 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:

31 December 2019:	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
Customer deposits	5,397,172	15,457,783	5,966,294	137,229	11,209,104	38,167,582
Bank deposits	528,250	-	-	-	-	528,250
Borrowings	-	61,080	1,145,064	4,199,895	919,792	6,325,831
Lease liabilities	-	40,901	92,750	739,535	189,381	1,062,567
Corporate bond	-	-	-	-	-	-
Other liabilities	1,711,874	-	-	-	-	1,711,874
Government income notes *	-	1,047	3,140	20,935	50,750	75,872
Total	**7,637,296**	**15,560,811**	**7,207,248**	**5,097,594**	**12,369,027**	**47,871,976**
Letters of credit	5,882	-	-	3,709	-	9,591
Guarantees	3,000	14,610	6,648	58,093	-	82,351
Unrecognised loan commitments	-	-	1,148,828	-	-	1,148,828
	8,882	14,610	1,155,476	61,802	-	1,240,770
At 31 December 2019	**7,646,178**	**15,575,421**	**8,362,724**	**5,159,396**	**12,369,027**	**49,112,746**
	5,934,304	**15,575,421**	**8,438,541**	**5,406,610**	**12,393,813**	**47,748,689**

*Government income notes do not carry a maturity date hence interest has been calculated up to 5years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities

31 December 2018:	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 liabilities						
Customer deposits	4,627,586	16,115,988	4,950,150	129,881	10,278,662	36,102,267
Bank deposits	578,216	-	-	-	-	578,216
Loans from banks	258,450	606,235	1,677,285	4,746,131	1,943,778	9,231,879
Borrowings	-	-	2,294,596	-	-	2,294,596
Corporate bond	-	-	3,341,298	-	-	3,341,298
Other liabilities	1,305,147	-	-	-	-	1,305,147
Government income notes *	-	1,047	3,140	20,935	50,750	75,872
Total	**6,769,399**	**16,723,270**	**12,266,469**	**4,896,947**	**12,273,190**	**52,929,275**
Letters of credit	-	6,603	-	-	-	6,603
Guarantees	3,000	28,100	106,396	40,661	-	178,157
Unrecognised loan commitments	-	-	1,875,523	-	-	1,875,523
	3,000	**34,703**	**1,981,919**	**40,661**	**-**	**2,060,283**
At 31 December 2018	**6,772,399**	**16,757,973**	**14,248,388**	**4,937,608**	**12,273,190**	**54,989,558**

*Government income notes do not carry a maturity date hence interest has been calculated up to 5years.

Liquidity reserves

The following table sets out the components of the Group's liquidity reserves.

Liquidity reserves	Carrying/ fair value amount 2019 Kshs'000	Carrying/ fair value amount 2018 Kshs'000
Cash at hand	558,941	356,884
Balances with Commercial Banks	136,170	137,373
Balances with Central Bank of Kenya:	2,287,779	2,423,468
Placements with other banks	803,923	1,904,695
Government securities	4,602,869	3,212,140
Total liquidity reserves	**8,389,682**	**8,034,560**

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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.

(i) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The Group's exposure to foreign currency risk arose from assets denominated in US Dollars, EUR and GBP was as follows:

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

USD	**2019**	**2018**
Cash in bank	38,772	115,952
Loans and advances to customers	4,289,690	4,734,645
Borrowings	(5,000,808)	(6,768,580)
Net statement of financial position exposure	**(672,346)**	**(1,917,983)**
EUR		
Cash in bank	68,548	22,372
Loans and advances to customers	22	30
Net statement of financial position exposure	**68,570**	**22,402**
GBP		
Cash in bank	7,489	21,242
Loans and advances to customers	42,003	66,071
Net statement of financial position exposure	**49,492**	**87,313**

The following significant exchange rates applied during the period:

	Average rates 2019	**Closing rates 2019**
US Dollar	101.24	101.35
EUR	113.24	113.64
GBP	132.79	133.23

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

	Average rates 2018	Closing rates 2018
US Dollar	101.84	101.80
EUR	116.44	116.59
GBP	129.01	130.36

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 USD, EUR and GBP at 31 December 2019 would have increased the profit for the period after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant.

A 10 percent weakening of the Kenya Shilling against the USD, EUR and GBP at 31 December 2019 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 2019				
USD 10% movement	(47,064)	47,064	(47,064)	47,064
EUR 10% movement	4,800	(4,800)	4,800	(4,800)
GBP 10% movement	3,464	(3,464)	3,464	(3,464)
31 December 2018				
USD 10% movement	134,259	(134,259)	134,259	(134,259)
EUR 10% movement	(1,568)	1,568	(1,568)	1,568
GBP 10% movement	(6,112)	6,112	(6,112)	6,112

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Sensitivity analysis to interest rate risk

The following table sets out the components of the Group's financial instruments subject to interest rate risk:

Assets	Interest rate	2019 Kshs'000	2018 Kshs'000
Loans and advances	10.67%	38,825,998	44,615,058
Government securities	13.33%	4,602,869	3,212,140
Placements with banks	1.72%	803,923	1,904,695
Total liquidity reserves		**42,232,790**	**49,731,893**
Liabilities			
Deposits	5.71%	37,928,237	35,444,900
Borrowings	6.64%	5,803,723	8,469,153
Total liquidity reserves		**43,731,960**	**43,914,053**

At 31 December 2019, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax profit for the year would have been Kshs 442 million (2018 – Kshs 497 million) lower arising mainly as a result of lower interest income and other components of equity would have been Kshs 438 million (2018 – Kshs 439 million) lower arising mainly as a result of lower interest income loans and advances.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been Kshs 442 million (2018 – Kshs 497 million) higher, arising mainly as a result of higher interest income on loans and advances and other components of equity would have been Kshs 438 million (2018 – Kshs 439 million) higher, arising mainly as a result of higher interest income loans and advances.

(iii) Other price risk

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

(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 the Group's independent risk control 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital risk 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 banking portfolio of HFC Limited.

The regulatory capital is analysed in two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and minority interest after deduction of goodwill and intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserves relating to unrealized gains on equity instruments classified as available for sale.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognizes 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 except for total capital ratio. The Group is expecting a Kshs 1 billion tier 2 capital injection in 2020 which will take the ratio back to compliance. There has been no material change in the Group's management of capital during the period.

The regulatory capital position for HFC Limited, the Group's banking subsidiary, as at 31 December 2019 was as follows:

	2019 Kshs'000	2018 Kshs'000
Tier 1 capital		
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	(2,308,522)	(1,440,413)
Deferred tax	(392,369)	(147,479)
Total tier 1 capital	**5,812,771**	**6,925,770**
Tier 2 capital		
Regulatory reserve	558,493	611,754
Qualifying subordinated liabilities	-	73,115
Total tier 2 capital	**558,493**	**684,869**
Total regulatory capital	**6,371,264**	**7,610,639**
Risk weighted assets	**44,679,426**	**48,940,357**
Capital ratios	**2019**	**2018**
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.26%	15.55%
Minimum requirement	14.50%	14.50%

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital risk management (continued)

Capital ratios (continued)	2019	2018
Total tier 1 capital expressed as a		
Percentage of risk-weighted assets	13.01%	14.15%
Minimum requirement	10.50%	10.50%

Central Bank of Kenya required the Group to maintain a minimum core capital of Kshs 1 billion as at 31 December 2019.

The Group is compliant with this requirement.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may limit the amount of dividends paid to shareholders

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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(i).

Judgment is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPT) on the principal amount outstanding.

Judgment is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

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 judgments 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 loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Allowances for credit losses (continued)

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. The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Group's debtors transition matrix model, which assigns PDs to debtors and other financial assets.
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a ECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as interest rates levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(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.

(iii) Fair value of financial instruments

Where the fair values of the financial assets and finance liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(iv) Extension of lease term

The directors have made a judgment on whether the Group is reasonably certain to exercise extension option of its leases.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

In the process of applying the Group's accounting policies, management has made judgments in determining:

- The classification of joint arrangements;
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- The classification of financial assets;
- Lease classifications;
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL
- Depreciation rates for property and equipment.

6. 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;

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 in charge 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 Investment 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

6. OPERATING SEGMENTS (continued)

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Totals	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Interest income	2,823,570	3,293,696	2,293,010	2,751,824	-	-	-	-	5,116,580	6,045,520
Interest expense:	(1,521,615)	(1,953,683)	(1,341,997)	(1,658,071)	-	-	-	-	(2,863,612)	(3,611,754)
Net interest income	**1,301,955**	**1,340,013**	**951,013**	**1,093,753**	**-**	**-**	**-**	**-**	**2,252,968**	**2,433,766**
Non-interest income	482,037	273,436	34,549	29,442	1,124,986	846,394	63,225	55,117	1,704,797	1,204,389
Depreciation and amortisation	(225,480)	(226,863)	(145,868)	(138,843)	(15,889)	(15,692)	(351)	(241)	(387,588)	(381,639)
Reporting segment profit/ (loss) before income tax	(20,147)	(409,708)	(3,338)	14,429	(93,043)	(172,970)	18,245	15,936	(98,283)	(552,313)
Loan disbursements	-	-	-	-	-	-	-	-	-	-
Loan sales	3,074,266	1,981,915	2,205,903	987,175	-	-	-	-	5,280,169	2,969,090
Deposits balances	2,374,369	296,263	2,198,551	1,489,340	-	-	-	-	4,572,920	1,785,603
Other material non-cash items	**16,571,935**	**15,743,509**	**21,432,425**	**19,701,391**	**-**	**-**	**-**	**-**	**38,004,360**	**35,444,900**
Impairment losses on mortgage loans									-	-
Capital expenditure	(241,338)	(223,334)	(109,857)	(152,574)	-	-	-	-	(351,195)	(375,908)
Reportable segment assets	55,530	139,525	51,560	4,445	1,499	2,677	435	725	109,024	147,372
Reportable segment liabilities	**27,331,716**	**29,804,245**	**27,200,174**	**27,298,355**	**3,870,074**	**2,806,619**	**79,267**	**76,167**	**58,481,231**	**59,985,386**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

6. OPERATING SEGMENTS (Continued)

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

	2019 Kshs'000	2018 Kshs'000
Net interest income		
Total net interest income for reportable segments	2,252,968	2,433,767
Other interest income adjustments	(285,257)	(168,094)
Consolidated net interest income	**1,967,711**	**2,265,673**
Non-interest income		
Total non-interest income for reportable segments	1,704,797	1,204,388
Other non-interest income	(301,595)	114,669
Consolidated non-interest income	**1,403,202**	**1,319,057**
Profit or loss		
Total profit or loss for reportable segments	(98,283)	(552,313)
Other profit or loss	(39,519)	(90,431)
Consolidated profit before income tax	**(137,802)**	**(642,744)**
Assets		
Total assets for reportable segments	58,481,231	59,985,386
Other assets	(2,026,313)	563,964
Consolidated total assets	**56,454,918**	**60,549,350**
Liabilities		
Total liabilities for reportable segments	48,095,244	48,402,604
Other liabilities	(1,882,546)	1,775,515
Consolidated total liabilities	**46,212,698**	**50,178,119**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

7. INTEREST INCOME AND INTEREST EXPENSE

Interest income	**Group**	**Group**	**Company**	**Company**
	2019	**2018**	**2019**	**2018**
Arising from:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Loans and advances to customers	4,678,689	5,661,554	-	-
Financial assets at amortised cost	18,517	194,807	-	-
Financial assets at FVOCI	419,374	189,160	-	605
	5,116,580	**6,045,521**	**-**	**605**

Included in interest income on loan and advances for the year is a total of Kshs 722,487,517 (2018 – Kshs 969,798,658) accrued interest on impaired assets.

Interest expense	**Group**	**Group**	**Company**	**Company**
	2019	**2018**	**2019**	**2018**
Arising from:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Deposits from banks	99,171	126,790	-	-
Deposits from customers	1,682,231	2,173,142	-	-
Interest on borrowed funds	1,303,500	1,479,916	-	-
Lease liability interest expense	63,967	-	-	-
	3,148,869	**3,779,848**	**-**	**-**

8. NON INTEREST INCOME

Fees and commissions charged for services provided or received by the company are recognised as the service is performed.

	Group	**Group**	**Company**	**Company**
	2019	**2018**	**2019**	**2018**
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**
Fees and commission income (Note 8(a))	394,382	214,725	-	-
Other income (Note 8 (b))	1,008,820	1,104,332	177,945	387,934
Total non-interest income	**1,403,202**	**1,319,057**	**177,945**	**387,934**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

8. NON INTEREST INCOME (Continued)

(a) Fees and commission - Group

2019	Corporate & Institutional Banking Kshs '000	Retail Banking Kshs '000	Property Development Kshs '000	Bancassuarance Kshs '000	Total Kshs '000
Transactional banking	4,248	129,752	-	-	134,000
Lending	69,517	114,123	-	-	183,640
Custodial services	25,521	-	-	-	25,521
House sales commission	-	-	2,667	-	2,667
Insurance commission	-	-	-	48,554	48,554
	99,286	**243,875**	**2,667**	**48,554**	**394,382**

2018	Corporate & Institutional Banking Kshs '000	Retail Banking Kshs '000	Property Development Kshs '000	Bancassuarance Kshs '000	Total Kshs '000
Transactional banking	8,438	72,876	-	-	81,314
Lending	39,062	23,891	-	-	62,953
Custodial services	170	-	-	-	170
House sales commission	-	-	15,171	-	15,171
Insurance commission	-	-	-	55,117	55,117
	47,670	**96,767**	**15,171**	**55,117**	**214,725**

(b) Other income

	Group 2019 Kshs '000	Group 2018 Kshs '000	Company 2019 Kshs '000	Company 2018 Kshs '000
Foreign currency trading	50,151	38,173	-	-
Rental income	105,194	98,662	-	-
Insurance discount	33,123	20,951	-	-
Construction project related costs	(312,123)	-	-	-
Gain on sale of property	553,363	-	13	-
House sale income	517,782	846,394	-	-
Other income	57,198	100,152	177,910	387,934
Gain on disposal	4,132	-	22	-
	1,008,820	**1,104,332**	**177,945**	**387,934**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

9. NON INTEREST EXPENSES

Arising from:	Group 2019 Kshs '000	Group 2018 Kshs '000	Company 2019 Kshs '000	Company 2018 Kshs '000
Salaries and employee benefits	1,078,236	1,227,078	119,941	208,407
Rental expenses	115,495	155,526	-	-
Depreciation of property and equipment (Note 23)	153,325	181,033	144	142
Depreciation of investment property (Note 31)	21,847	-	-	-
Amortisation of intangible assets (Note 25)	211,918	200,105	-	-
Deposit Protection Fund	52,487	52,573	-	-
Cost of sold houses	510,327	803,487	-	-
Marketing expenses	111,170	156,003	907	-
Information technology expenses	317,865	388,054	-	-
Legal expenses	78,083	142,580	-	-
Office expense	184,611	292,001	191	-
Amortisation of right-of-use asset (Note 38)	70,832	-	-	-
General administration expenses	305,678	190,275	96,717	110,592
	3,211,874	**3,788,715**	**217,900**	**319,141**

The following items are included in salaries and employee benefits:

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Compulsory social welfare contributions	951	930	10	15
Contributions to the defined contribution retirement scheme	60,072	74,879	4,267	4,267
Number of employees in the Group	479	368	4	3

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

10. LOSS/PROFIT BEFORE TAXATION

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

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Directors' remuneration:				
- Fees	11,822	8,423	11,240	6,708
- Expenses	7,998	7,904	-	-
- as executives	50,115	64,139	50,115	64,139
Auditor's remuneration	15,272	13,478	1,699	1,618
Amortisation of prepaid operating lease rentals	-	643	-	-
Amortisation of intangible assets	211,918	200,105	-	-
Amortisation of right-of-use asset	70,832	-	-	-
Amortisation of investment property (Note 31)	21,847	14,884	-	-
Depreciation of property and equipment	153,325	181,033	144	142
Gain on sale of property and equipment	4,132	-	22	-

11. TAXATION

(a) Income tax expense

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Current tax at 30%	135,540	20,665	-	73
Prior year under provision of current tax	50,785	-	-	-
Deferred tax movement (Note 26)	(206,135)	(58,149)	(10,253)	(11,978)
Prior year deferred tax (under)/over provision (Note 26(a))	(7,884)	(7,042)	-	1
	(27,694)	**(44,526)**	**(10,253)**	**(11,904)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

11. TAXATION - continued

(a) Income tax expense (continued)

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

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Accounting profit/(loss) before taxation	(137,802)	(642,744)	(44,567)	29,598
Tax at the applicable tax rate of 30%	(41,341)	(192,823)	(13,370)	8,879
Prior year under provision of current tax	50,785	-	-	-
Prior year (under)/over provision of deferred tax	(7,884)	(7,042)	-	1
Tax effect of non-deductible costs and tax exempt income	(29,254)	155,339	3,117	(20,784)
	(27,694)	**(44,526)**	**(10,253)**	**(11,904)**

(b) Taxation recoverable

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
At 1 January	311,736	204,009	25,133	13,585
Charge for the year	(135,540)	(20,665)	-	(73)
Paid during the year	23,940	23,341	9,024	11,621
Reclassification from WHT recoverable	1,869	54,266	-	-
Prior year under provision	(50,785)	-	-	-
Impact of initial application of IFRS 15	-	50,785	-	-
At 31 December	**151,220**	**311,736**	**34,157**	**25,133**
The following amounts are shown in the balance sheet:				
Tax recoverable	**151,220**	**311,739**	**34,157**	**25,133**
Tax payable	**-**	**(3)**	**-**	**-**

12. EARNINGS PER SHARE

Group:

Basic

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

	2019	2018
	Kshs'000	Kshs'000
Net loss for the year attributable to shareholders	(110,108)	(598,218)
Number of ordinary shares in issue (000's)	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	367,135
Basic earnings per share	(0.29)	(1.56)
Weighted earnings per share	(0.29)	(1.63)

13. DIVIDENDS

(a) Proposed dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. No final dividend in respect of the year ended 31 December 2019 (2018 – Nil) has been proposed. No interim dividend was paid during the year (2018 – Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2019 (2018 – 384,614,168).

(b) Reconciliation of dividends payable – Group and Company:

	2019	2018
	Kshs'000	Kshs'000
At 1 January 2019	28,055	49,058
Proposed dividends (prior year)	-	122,359
Transfer from retained earnings	-	3
Dividends paid during the year	(24,955)	(143,365)
Balance as at 31 December	**3,100**	**28,055**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. FINANCIAL ASSETS AND LIABILITIES

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

Group

31 December 2019:

	Fair value through profit or loss	Fair value through other comprehensive income	Financial instruments at amortised cost	Fair value of financial instruments at amortised cost
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Financial assets				
Cash and cash equivalents	-	-	2,982,890	2,982,890
Placements with banks	-	-	804,645	804,645
Investment in Government securities	-	4,175,744	427,125	425,218
Loan advances to banks	-	-	227,962	227,962
Loan advances to customers	-	-	42,158,813	42,158,813
Other receivables	-	-	716,712	716,712
	-	**4,175,744**	**47,318,147**	**47,316,240**
Financial liabilities				
Customer deposits	-	-	37,928,237	37,928,237
Corporate bond	-	-	-	-
Shareholders' income notes	-	-	50,750	50,750
Borrowings	-	-	5,803,723	5,734,966
Other liabilities	-	-	2,426,625	2,426,625
	-	**-**	**46,209,335**	**46,140,578**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

Group

31 December 2018:

	Fair value through profit or loss Kshs '000	Fair value through other comprehensive income Kshs '000	Financial instruments at amortised cost Kshs '000	Fair value of financial instruments at amortised cost Kshs '000
Financial assets				
Cash and cash equivalents	-	-	2,917,725	2,917,725
Placements with banks	-	-	1,904,995	1,904,995
Investment in Government securities	-	2,696,339	515,801	508,550
Loan advances to banks	-	-	253,610	253,610
Loan advances to customers	-	-	43,186,287	43,186,287
Other receivables	-	-	172,266	172,266
	-	**2,696,339**	**48,950,684**	**48,943,433**
Financial liabilities				
Customer deposits	-	-	35,299,040	35,299,040
Corporate bond	-	-	3,051,811	2,978,615
Shareholders' income notes	-	-	50,750	50,750
Borrowings	-	-	10,416,938	10,136,314
Other liabilities	-	-	1,266,271	1,266,271
	-	**-**	**50,084,810**	**49,730,990**

Company:

31 December 2019:

	Fair value through profit or loss	Fair value through other comprehensive income	Financial instruments at amortised cost	Total
Financial assets	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cash and cash equivalents	-	-	31,156	31,156

31 December 2018:

	Fair value through profit or loss	Fair value through other comprehensive income	Financial instruments at amortised cost	Total
Financial assets	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cash and cash equivalents	-	-	34,167	34,167

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

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 Bloomberg. 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.

Loans and advances to customers are net of provisions for impairment. The Group's loans and advances are subject to price adjustments within 12 months as well as adjusting as a result of monetary policy pronouncements and hence the fair value approximates their carrying amounts.

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 other assets:	Non-financial assets that are marked to the market.	Investment property, Land and buildings and Investment in property fund	Non-financial assets that are valued using significant non-market observable inputs
Types of financial liabilities:	Listed derivative instruments.	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

The table below shows the classification of assets held at fair value by the level in the fair value hierarchy as at 31 December 2019:

Group

31 December 2019:	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial assets				
Investment in government securities	4,600,962	-	-	4,600,962
Investment in property fund	-	788,040	-	788,040
Investment property	-	1,817,100	-	1,817,100
	4,600,962	**2,605,140**	**-**	**7,206,102**

31 December 2018:	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial assets				
Investment in government securities	3,204,889	-	-	3,204,889
Investment property	-	1,100,000	-	1,100,000
	3,204,889	**1,100,000**	**-**	**4,304,889**

15. CASH AND BALANCES WITH BANKS

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Cash at hand	558,941	356,884	-	-
Balances with Commercial Banks	136,170	137,373	31,156	34,167
Balances with Central Bank of Kenya				
- Unrestricted	338,023	610,120	-	-
- Restricted (Cash Reserve Ratio)	1,949,756	1,813,348	-	-
Balance as at 31 December (gross)	**2,982,890**	**2,917,725**	**31,156**	**34,167**
Less: Allowance for impairment losses	(566)	(642)	-	-
Balance as at 31 December (net)	**2,982,324**	**2,917,083**	**31,156**	**34,167**

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 2019, the Cash Reserve Ratio was 5.25% (2018 – 5.25%) of all deposits. These funds are available for use by the Group 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%. The restricted balances above are not available for use in the Group's day to day operations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

16. PLACEMENTS WITH OTHER BANKS

	2019 Kshs'000	2018 Kshs'000
Placements with commercial banks	803,923	1,904,695

The weighted average effective interest rate on placements with other banks was 1.72% (2018 – 3.50%).

Placements with other banks

Group	2019 Kshs'000	2018 Kshs'000
Placements with other banks	804,645	1,904,995
Less: Allowance for impairment losses	(722)	(300)
	803,923	1,904,695

17. INVESTMENT IN GOVERNMENT SECURITIES

	2019	2018
Group		
Held at amortised cost		
Treasury bills and bonds due after 180 days	628,621	515,801
FVOCI		
Treasury bonds held at FVOCI	3,974,248	2,696,339
	4,602,869	3,212,140

The weighted average interest rate on investment in government securities is 13.33% (2018 – 11.99%).

18. LOAN ADVANCES AT AMORTISED COST

(a) Loan advances at amortised cost

Group	2019 Kshs'000	2018 Kshs'000
Loans and advances to banks (gross)	227,962	253,610
Less: Provision for impairment losses	(192)	(206)
Net loans and advances to banks	227,770	253,404

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18. LOAN ADVANCES AT AMORTISED COST (continued)

(a) Loan advances at amortised cost (continued)

Group (continued)	2019 Kshs'000	2018 Kshs'000
Loans and advances to customers (gross)	42,158,813	46,351,452
Less: Provision for impairment losses	(3,606,845)	(3,165,165)
Net loans and advances to customers	**38,551,968**	**43,186,287**
Maturing:		
Within five years	13,052,807	14,634,711
Over five years to ten years	13,614,047	13,569,191
Over ten years to fifteen years	9,569,239	13,106,015
Over fifteen years	6,150,682	5,295,590
Gross loans and advances at amortised cost	**42,386,775**	**46,605,507**

During the year, HFC Limited, the banking subsidiary of the Group, purchased properties worth Kshs 544,950,000 from distressed borrowers in full realization of the debt owed to the Company. These properties have been classified as investment properties (Refer Note 31).

(b) Loss allowance on financial instruments

Group

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income.

2019:	Loans and advances to banks at amortised cost Kshs'000	Loans and advances to customers at amortised cost Kshs'000	Guarantees and letters of credit cost Kshs'000	Cash and cash equivalents Kshs'000	Other financial assets and receivables Kshs'000	Total Kshs'000
Net re-measurement of loss allowance	(14)	698,423	(9,629)	(498)	(41,390)	646,892
Financial assets de recognized	-	(389,265)	-	-	-	(389,265)
New financial assets originated or purchased	-	41,342	-	-	-	41,342
	(14)	**350,500**	**(9,629)**	**(498)**	**(41,390)**	**298,969**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18. LOAN ADVANCES AT AMORTISED COST (continued)

(b) Loss allowance on financial instruments (continued)

Group (continued)

2018:	Loans and advances to banks at amortised cost Kshs'000	Loans and advances to customers at amortised cost Kshs'000	Guarantees and letters of credit cost Kshs'000	Cash and cash equivalents Kshs'000	Other financial assets and receivable Kshs'000	Total Kshs'000
Net re-measurement of loss allowance	9	390,899	534	134	73,096	464,672
Financial assets de recognized	-	(16,671)	-	(301)	-	(16,972)
	9	**374,228**	**534**	**(167)**	**73,096**	**447,700**

Company

2019	Cash and cash equivalents Kshs'000	Other financial assets and receivable Kshs'000	Total Kshs'000
Net re-measurement of loss allowance	-	4,612	4,612
Financial assets de recognized	-	-	-
New financial assets originated or purchased	-	-	-
	-	**4,612**	**4,612**

2018	Cash and cash equivalents Kshs'000	Other financial assets and receivable Kshs'000	Total Kshs'000
Net re-measurement of loss allowance	-	39,800	39,800
Financial assets de recognized	-	-	-
New financial assets originated or purchased	-	-	-
	-	**39,800**	**39,800**

The weighted average effective interest rate on loan advances to customers as at 31 December 2018 was 10.67% (2018 – 10.72%).

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

(a) Subsidiaries

		Company	Company
		2019	2018
	Shareholding	Kshs'000	Kshs'000
HFC Limited	100%	8,513,662	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,440,000	1,440,000
First Permanent (East Africa) Limited (FPEAL) (Dormant)	100%	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	100	100
		9,958,782	**9,958,782**

- HFC Limited is licensed to transact mortgage and banking business under the Banking Act (Cap.488) and seeks to encourage and promote the flow of both private and public savings into financing home ownership, trade and investments.
- HF Development and Investment Limited's principal activity is developing and selling residential houses.
- HF Insurance Agency Limited's principal activity is procuring insurance business. It is registered as an insurance agent under the Insurance Act.
- HF Foundation Limited is the social investment arm of the Group.
- First Permanent East Africa Limited is currently dormant and did not undertake any trading activities during the period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

(b) Joint ventures

		Group 2019 Kshs'000	Group 2018 Kshs'000
Kahawa Downs Limited	50%	144,737	128,297
Precious Heights Limited	50%	91,891	94,776
Richland Development Limited	50%	158,613	164,679
Claycity Limited	33%	491,325	489,751
Theta Dam Estate Limited	50%	842,520	842,642
		1,729,086	**1,720,145**
Group share of profit/(loss) in joint venture			
Kahawa Downs Limited	50%	6,737	16,440
Precious Heights Limited	50%	(985)	(2,885)
Richland Development Limited	50%	(2,824)	(6,066)
Claycity Limited	33%	(721)	1,574
Theta Dam Estate Limited	50%	(79)	(122)
		2,128	8,941
Net investment in joint venture		**1,731,214**	**1,729,086**

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;
- Claycity Limited and
- Theta Dam Estate Limited

In 2013, HFC Limited entered into a joint venture in the name of Kahawa Downs Limited with a land owner for development of housing units (apartments) in Kahawa Wendani, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. HFC Limited contributed capital which is equivalent to the value of the land where the housing units were developed.

Subsequent to the financial reporting date the directors of Kahawa Downs Limited made a resolution to wind up the joint venture and appointed a transaction team to guide the board on the winding up process and final distribution of the net assets. This process is currently ongoing (Note 43).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

(b) Joint ventures (continued)

In 2012, HFC Limited entered into a joint venture in the name of Precious Heights Limited with a land owner for development of housing units (apartments) in Riruta, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. HFC Limited contributed capital which is equivalent to the value of the land where the housing units are being developed.

In 2016, HFDI Limited entered into a joint venture in the name of Claycity Limited with a land owner for development of housing units (apartments) in Clay Works along Thika Road, Nairobi. The entity is jointly controlled with HFDI Limited controlling 33% of the shareholding.

In 2016, HFDI Limited entered into a joint venture in the name of Richland Development Limited with a land owner for development of housing units (apartments) in Kamiti along Kamiti Road, Kiambu. The entity is jointly controlled with HFDI Limited controlling 50% of the shareholding.

In 2016, HFDI Limited entered into a joint venture in the name of Theta Dam Estate Limited with a land owner for mixed development of housing units in Ruiru along Kiganjo Road, Kiambu. The entity is jointly controlled with HFDI Limited controlling 50% of the shareholding.

Subsequent to the financial reporting date the directors of Theta Dam Limited made a resolution to convert the joint venture from limited liability company to a limited liability partnership where both parties will be equal partners. The objective of the joint venture remained the same. The process of the conversion is ongoing (Note 43).

The Group has classified its interest in these entities as a joint venture, which is equity accounted.

The following are summarized financial information for Kahawa Downs Limited, Precious Heights Limited, Richland Development Limited, Claycity Limited and Theta Dam Estate Limited based on their financial statements prepared in accordance with IFRS.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

(b) Joint ventures (continued)

Group 2019:	Kahawa Development Limited	Precious Heights Limited	Richland Development Limited	Claycity Limited	Theta Dam Estate Limited	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	132,126	3,125	1,216	1,717	-	138,184
Operating costs	(112,863)	(5,940)	(6,500)	(3,386)	(158)	(128,847)
Income tax expense	(5,789)	845	(365)	(515)	-	(5,824)
Profit/(loss) and other comprehensive income	**13,474**	**(1,970)**	**(5,649)**	**(2,184)**	**(158)**	**3,513**
Group share of net profit/(loss)	**6,737**	**(985)**	**(2,824)**	**(721)**	**(79)**	**2,128**
Current assets	466,197	882,414	2,084,399	1,824,696	1,685,284	6,942,990
Current liabilities	(163,249)	(700,604)	(1,772,821)	(338,014)	(402)	(2,975,090)
Net assets	**302,948**	**181,810**	**311,578**	**1,486,682**	**1,684,882**	**3,967,900**
Groups share of net assets	**151,474**	**90,906**	**155,789**	**490,604**	**842,441**	**1,731,214**
Group's interest in net assets at the beginning of the year	144,737	91,891	158,613	491,325	842,520	1,729,086
Group share of current year total comprehensive income	6,737	(985)	(2,824)	(721)	(79)	2,128
Carrying amount of interest in investee at end of the year	**151,474**	**90,906**	**155,789**	**490,604**	**842,441**	**1,731,214**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

(b) Joint ventures (continued)

Group 2018:	Kahawa Development Limited	Precious Heights Limited	Richland Development Limited	Claycity Limited	Theta Dam Estate Limited	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	241,685	350	1,206	12,987	-	256,228
Operating costs	(211,808)	(8,593)	(12,976)	(4,320)	(244)	(237,941)
Income tax expense	3,003	2,473	(362)	(3,896)	-	1,218
Profit/(loss) and other comprehensive income	**32,880**	**(5,770)**	**(12,132)**	**4,771**	**(244)**	**19,505**
Group share of net profit/(loss)	**16,440**	**(2,885)**	**(6,066)**	**1,574**	**(122)**	**8,941**
Current assets	455,748	631,733	1,706,386	1,561,807	1,685,040	6,040,714
Current liabilities	(166,274)	(447,951)	(1,389,160)	(72,943)	-	(2,076,328)
Restated net assets	**289,474**	**183,782**	**317,226**	**1,488,864**	**1,685,040**	**3,964,386**
Groups share of net assets (50%)	**144,737**	**91,891**	**158,613**	**491,325**	**842,520**	**1,729,086**
Restated Group's interest in net assets at the beginning of the year	159,805	94,776	164,679	490,961	842,642	1,752,863
IFRS 15 Adjustment	(31,508)					(31,508)
Additions during the year	-	-	-	(1,210)	-	(1,210)
Closing group interest	**128,297**	**94,776**	**164,679**	**489,751**	**842,642**	**1,720,145**
Share of total comprehensive income	16,440	(2,885)	(6,066)	1,574	(122)	8,941
Carrying amount of interest in investee at end of the year	**144,737**	**91,891**	**158,613**	**491,325**	**842,520**	**1,729,086**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

20. OTHER ASSETS

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Trade receivables	465,785	194,399	126,992	149,260
House sales debtors	-	11,034	-	-
Less: Allowance for impairment losses	(96,269)	(137,659)	(57,259)	(52,647)
	369,516	**67,774**	**69,733**	**96,613**
Payment on deposits	44,983	51,845	-	-
Prepayments	193,936	239,145	746	500
Receivable from KMRC	50,000	-	-	-
Foreclosed assets deposits	252,213	-	-	-
	910,648	**358,764**	**70,479**	**97,113**

The credit risk analysis has been done in Note 4 (a).

21. INVESTMENT IN PROPERTY FUND

	2019 Kshs'000	2018 Kshs'000
Investment in Property Fund	**788,040**	-

In June 2019, HFDI Limited, a subsidiary of HF Group Plc, formed a limited liability partnership property fund with Crescent Finco LLP named Housing Finance Development and Investment LLP. Crescent Finco had lent HFDI Limited Kshs 1,593,211,353 which it converted into an investment in the property fund. HFDI Limited transferred the assets shown below into the partnership:

	Kshs'000
Inventory (housing units) (Note 22)	1,767,901
Land	553,350
Cash	60,000
Total assets	**2,381,251**
Borrowings transferred (Crescent Finco LLP's investment) (Note 32)	(1,593,211)
Investment in property fund	**788,040**

Prior to the transfer, the land was being held as part of inventory at zero cost. On transfer into the property fund, the land was valued at Kshs 553,350,000, which has been recognized in the statement of profit or loss during the year.

The assets owned by the property fund will be realized progressively and the proceeds distributed to the partners in accordance with the partnership agreement. Crescent Finco will receive cash distribution first until its investment plus a return of 12% is fully paid. The residue will be distributed to HFDI Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

22. INVENTORY

	2019 Kshs'000	2018 Kshs'000
Group:		
Inventory (housing units)	514,422	2,537,972

There were no commitments in respect of these projects authorized in 2019 (2018 – Nil).

During the year, house inventory amounting to Kshs 1,767,901,609 (Note 21) were transferred to Housing Finance Development and Investment LLP, which is a limited liability partnership between HFDI Limited, a subsidiary of HF Group Plc, and Crescent Finco LLP.

23. PROPERTY AND EQUIPMENT

(a) Group 2019:	Freehold land Kshs'000	Buildings Kshs'000	Furniture, fixtures, equipment & motor vehicles Kshs'000	Total Kshs'000
Cost or valuation:				
At 1 January 2019	62,000	805,183	1,232,130	2,099,313
Additions	-	-	39,220	39,220
Disposals	-	-	(31,604)	(31,604)
At 31 December 2019	**62,000**	**805,183**	**1,239,746**	**2,106,929**
Comprising:				
At cost	10,000	20,651	1,238,886	1,269,537
At valuation	52,000	784,532	860	837,392
	62,000	**805,183**	**1,239,746**	**2,106,929**
Depreciation:				
At 1 January 2019	-	48,662	705,338	754,000
Charge for the year	-	13,112	140,213	153,325
Disposals	-	-	(18,802)	(18,802)
At 31 December 2019	**-**	**61,774**	**826,749**	**888,523**
Carrying amounts:				
At 31 December 2019	**62,000**	**743,409**	**412,997**	**1,218,406**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

23. PROPERTY AND EQUIPMENT (continued)

Group 2018:	Freehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Work in progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost or valuation:					
At 1 January 2018	62,000	805,183	1,266,893	3,284	2,137,360
Additions	-	-	11,975	-	11,975
Disposals	-	-	(3,728)	-	(3,728)
Transfer from work in progress	-	-	3,284	(3,284)	-
Revaluation	-	-	860	-	860
Impairment	-	-	(47,154)	-	(47,154)
At 31 December 2018	**62,000**	**805,183**	**1,232,130**	**-**	**2,099,313**
Comprising:					
At cost	10,000	20,651	1,231,270	-	1,261,921
At valuation	52,000	784,532	860	-	837,392
	62,000	**805,183**	**1,232,130**	**-**	**2,099,313**
Depreciation:					
At 1 January 2018	-	36,013	583,968	-	619,981
Charge for the year	-	12,649	153,500	-	166,149
Disposals	-	-	(3,428)	-	(3,428)
Impairment	-	-	(28,702)	-	(28,702)
At 31 December 2018	**-**	**48,662**	**705,338**	**-**	**754,000**
Carrying amounts:					
At 31 December 2018	**62,000**	**756,521**	**526,792**	**-**	**1,345,313**

The land and buildings, were revalued on 31 December 2017 by Tysons Limited, a firm of independent professional valuers on the basis of open market value for existing use. The resulting surplus was credited to revaluation reserve. The motor vehicle was revalued at 860,000 in year 2018 after being fully depreciated while still in use.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

23. PROPERTY AND EQUIPMENT (continued)

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

	2019	2018
	Kshs'000	Kshs'000
Free hold land	206	206
Buildings	2,798	3,211

Included in equipment are assets with a gross value of Kshs 357,901,335 (2018 – Kshs 275,504,322) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of Kshs 71,580,267 (2018 – Kshs 55,100,864). Revaluation of the Group's assets is done after every 3 years.

Company

2019:	Furniture, fixtures, equipment & motor vehicles	
	2019	2018
	Kshs'000	Kshs'000
Cost or valuation:		
At 1 January 2019	922	657
Additions	258	265
Disposals	(380)	-
At 31 December 2019	**800**	**922**
Depreciation:		
At 1 January 2019	227	85
Charge for the year	144	142
Disposals	(120)	-
At 31 December 2019	**251**	**227**
Carrying amounts:		
At 31 December 2019	**549**	**695**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

24. PREPAID OPERATING LEASE RENTALS

	Group 2019 Kshs'000	Group 2018 Kshs'000
Cost:		
At 1 January	54,612	54,612
Transfer to right of use asset on 1 Jan 2019 (Note 38)	(54,612)	-
At 31 December	-	54,612
Amortisation:		
At 1 January	11,328	10,504
Transfer to right of use asset on 1 Jan 2019 (Note 38)	(11,328)	-
Charge for the year	-	824
At 31 December	-	11,328
Carrying amounts		
At 31 December	**-**	**43,284**

25. INTANGIBLE ASSETS

	Group 2019 Kshs'000	Group 2018 Kshs'000
Cost:		
At 1 January	1,725,841	1,590,571
Additions during the year	67,870	135,397
Reclassification	-	(127)
At 31 December	**1,793,711**	**1,725,841**
Amortisation:		
At 1 January	718,288	518,183
Amortisation during the year	211,918	200,105
At 31 December	**930,206**	**718,288**
Carrying amounts:		
At 31 December	**863,505**	**1,007,553**

Included in the intangible assets is the Group's banking subsidiary, HFC Limited Core Banking Software at a cost of Kshs 1,294,905,015 that was rolled out on 1 January 2016, whose estimated useful life is 8 years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

26. DEFERRED TAX ASSETS/(LIABILITIES)

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

(a) Group

2019:	01.01.2019	Tax impact on initial application of IFRS 16	Recognized in profit or loss	Recognized in other comprehensive income	Prior year under provision	31.12.2019
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Arising from:						
Property and equipment	(183,775)	-	(77,922)	-	6,465	(255,232)
Revaluation surplus	(46,376)	-	-	-	-	(46,376)
Financial assets at FVOCI	2,136	-	-	(31,274)	-	(29,138)
Other general provisions	21,056	-	(7,287)	-	(707)	13,062
Right of use asset	-	39,376	9,519			48,895
Unrealised exchange losses	1	-	-	-	-	1
Trading losses	204,061	-	128,035	-	2,126	334,222
Impairment allowances	997,491	-	153,790	-	-	1,151,281
Net deferred tax	**994,594**	**39,376**	**206,135**	**(31,274)**	**7,884**	**1,216,715**

2018:	01.01.2018	Recognized in profit or loss	Recognized in other comprehensive income	Prior year	31.12.2018
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Arising from:					
Property and equipment	(114,905)	(70,338)	-	1,468	(183,775)
Revaluation surplus	(46,376)	(2,903)	-	2,903	(46,376)
Financial assets at FVOCI	20,250	-	(18,114)	-	2,136
Other general provisions	10,994	9,824	-	238	21,056
Unrealised exchange losses	1	-	-	-	1
Trading losses	75,234	128,827	-	-	204,061
General provision on loans and advances	1,002,319	(7,261)	-	2,433	997,491
Net deferred tax	**947,517**	**58,149**	**(18,114)**	**7,042**	**994,594**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

26. DEFERRED TAX ASSETS/(LIABILITIES) (continued)

(a) Group

The aging of group tax losses as at the reporting date is as shown below:

Year of origination	Loss brought forward	Taxable losses	Loss carried forward	Year of expiry
2016	-	(50,110)	(50,110)	2025
2017	(50,110)	(200,670)	(250,780)	2026
2018	(250,780)	(436,510)	(687,290)	2027
2019	(687,290)	(426,784)	(1,114,074)	2028

(b) Company

2019:	01.01.2019 Kshs'000	Recognized in profit or loss Kshs'000	31.12.2019 Kshs'000
Property and equipment	(44)	1	(43)
Trading losses	-	17,286	17,286
General provisions	15,898	(7,034)	8,864
Net deferred tax	**15,854**	**10,253**	**26,107**

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.

2018:	01.01.2018 Kshs'000	Recognized in profit or loss Kshs'000	31.12.2018 Kshs'000
Property and equipment	(31)	(13)	(44)
Trading losses	53	(53)	-
General provisions	3,854	12,044	15,898
Net deferred tax	**3,876**	**11,978**	**15,854**

The aging of company tax losses as at the reporting date is as shown below:

Year of origination	Loss brought forward	Taxable losses	Loss carried forward	Year of expiry
2019	-	(57,619)	(57,619)	2028

27. 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:

	2019	2018
	Number of shares	Number of shares
Outstanding at start of year	-	775,000
Granted during the year	-	-
Lapsed	-	(655,000)
Exercised ESOP during the year	-	(120,000)
Outstanding at end of year	**-**	**-**
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 2019 on the Nairobi Securities Exchange was Kshs 6.46 (2018 – Kshs 5.54). All Nil (2018 – Nil) outstanding shares were exercised as at 31 December 2019.

Back ground 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

28. CUSTOMERS' DEPOSITS

	Group 2019 Kshs'000	Group 2018 Kshs'000
Government and parastatals:		
Payable within 90 days	2,190,730	1,864,895
Payable after 90 days and within one year	428,408	385,697
Payable after one year	4,438,377	3,976,784
Private sector and individuals:		
Payable within 90 days	19,451,307	18,580,849
Payable after 90 days and within one year	4,666,838	4,217,751
Payable after one year	6,224,327	5,694,848
	37,399,987	**34,720,824**

Included in customer deposits are deposits due to related parties listed in Note 41.

29. DEPOSITS FROM BANKS

	Group 2019 Kshs'000	Group 2018 Kshs'000
Money market deposits	**528,250**	**578,216**

The weighted average interest rate on deposits from banks was 3.35% (2018 –3%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

30. OTHER LIABILITIES

	Group 2019 Kshs'000	Group 2018 Kshs'000	Company 2019 Kshs'000	Company 2018 Kshs'000
Interest payable on the Government of Kenya income notes	2,099	2,107	-	-
House sales deposits	265,690	263,460	-	-
Withholding tax payable	51,013	116,001	-	-
Sundry creditors	18,918	39,871	-	-
Trade creditors	254,154	233,170	-	-
Insurance premium payable	336,672	330,674	-	-
Deferred expenses	187,281	91,872	-	-
Contractors payables	107,428	-	-	-
Deposits due to the property fund	172,221	-	-	-
Lease liabilities (Note 38(iv))	714,751	-	-	-
Asset retirement obligation – right of use asset	14,792	-	-	-
Other liabilities	352,619	343,993	300,177	251,422
	2,477,638	**1,421,148**	**300,177**	**251,422**

The lease liabilities relate to leased premises and IT equipment that are used in conducting the banking business of the Group. The lease liabilities are payable on a quarterly basis.

31. INVESTMENT PROPERTY

	2019 Kshs'000	2018 Kshs'000
Cost or valuation		
As at 1 January	748,549	748,549
Additions during the year	544,950	-
As at 31 December	1,293,499	748,549
Depreciation		
At 1 January	14,884	-
Charge for the year	21,847	14,884
At 31 December	36,731	14,884
Carrying amount		
At 31 December	**1,256,768**	**733,665**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

31. INVESTMENT PROPERTY (continued)

The investment property includes 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 contingent rents are charged.

The commercial property was independently valued by Tyson's Limited in 2019. 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.

The additions during the year were properties acquired by the bank through foreclosure during the year. The open market value of these properties is Kshs 717,100,000.

The investment properties have been measured at cost less depreciation.

32. BORROWINGS

(a) Borrowings from banks and financial institutions

	Group 2019 Kshs'000	Group 2018 Kshs'000
European Investment Bank (EIB)	2,688,377	3,285,478
Ghana International Bank (plc)	-	510,212
Norwegian Investment Fund for Developing Countries	377,533	628,935
Shelter Afrique	802,722	931,670
Symbiotics SA	891,457	1,344,901
East African Development Bank	811,127	1,018,205
NIC Bank Ltd	-	516,250
Arab Bank for Economic Development in Africa	232,507	233,502
Cresent Finco LLP	-	1,493,741
Shelter Afrique	-	454,044
	5,803,723	**10,416,938**

In 2018, HFC Limited received USD 2.25 million from Arab Bank for Economic Development in Africa (BADEA) at an interest rate of 6 months Libor plus a margin of 5% for 10 years.

In 2017 HFC Limited received USD 22 million from EIB at an interest rate of 4.321% for 7 years.

In 2017 HFC Limited received USD 15 million from Ghana International Bank at a rate of 3 months Libor plus a margin of 5% for 2 years. The loan was fully repaid during the year.

In 2017 HFC Limited received a short term notes from NIC Bank Limited of Kshs 500 million at a rate of 14% for one year. The loan was fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32. BORROWINGS (continued)

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

In 2015, HF Group Plc 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 Group received two loan tranches from European Investment Bank of Kshs 668,085,425 at 10.783 % and Kshs 211 million 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. The Kshs 211 million tranche disbursed in 2012 was redeemed in 2019.

In 2014, HF Group Plc received Kshs 1 billion from Norfund at an interest rate of the weighted average rate of the 182 Treasury bill auction immediately preceding the interest payment date plus a margin of 3%. The facility is for 7 years with interest and principal being paid semi – annually.

The loans from European Investment Bank and Norfund were transferred from HF Group Plc with effect from 3 August 2015.

In 2015, HFC Limited, the banking subsidiary of the Group 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, HFC Limited, the banking subsidiary of the Group 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.

In December 2016, HFC Limited, the banking subsidiary of the Group received USD 17.4m from Symbiotics at an interest rate of 6 months USD Libor plus a margin of 5.25% for 4 years.

During the year, the Group did not default on any of the loan repayment obligations from all the existing lenders.

During the year, HFC Limited, the banking subsidiary of the Group was in breach of loan covenants with the following institutions as described below:

- As per the loan agreement between East Africa Development Bank and HFC Limited, the Company shall ensure that the ratio of the non – performing loans to total loans does not exceed 10%. As at year end, the ratio was 29.06%.

- As per the loan agreement between Arab Bank for Economic Development in Africa (BADEA) and HFC Limited, the Company shall ensure that at all times the Capital Adequacy Ratio is not less than 14.5%. As at year end, the Capital Adequacy Ratio was 14.3%. The Company shall also ensure that that the ratio of the non – performing loans to total loans is at all times less than or equal to 7%. As at year end, the ratio was 29.06%.

- As per the loan agreement with European Investment Bank and HFC Limited, the Company shall ensure that the Capital Adequacy Ratio is at all times less than 14.5%. As at year end, the Capital Adequacy Ratio was 14.3%. The Company shall also ensure that the ratio of the non – performing loans to total loans is at all times less than 15%. As at year end, the ratio was 29.06%. In addition, the Company shall also ensure that the Open Exposure Ratio is less than 40%. As at year end, the ratio was 66.13%.

- As per the loan agreement with Norfund and HFC Limited, the Company shall ensure that the Open Loan Exposure Ratio does not exceed 30%. As at year end, the ratio was 136.64%.

- As per the loan agreement with Shelter Afrique and HFC Limited, the Company shall ensure that the Capital Adequacy Ratio is in compliance with CBK requirements, that is, not less than 14.5%. As at year end, the Capital Adequacy Ratio was 14.3%. The Company shall also ensure that the Cost to Income Ratio is at all times less than 60%. As at year end, the ratio was 100.8%.

- As per the loan agreement with Symbiotics and HFC Limited, the Company shall ensure that the Capital Adequacy Ratio is at all times at either the higher of 10% (as prescribed by the loan agreement) or at 14.5% (as prescribed by the CBK). As at year end, the Capital Adequacy Ratio was 14.3%. The Company shall also ensure that the Maximum Risk on Equity is at all times less than 40%. As at year end, the ratio was 136.64%.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32. BORROWINGS (continued)

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

The Company has engaged the respective lenders for waivers of the breached covenants. Discussions are ongoing and management is confident the waivers will be granted as has been done in the past. As per the contractual agreements, the breaches do not result in the borrowings becoming repayable on demand. Accordingly, the borrowings were not payable on demand at 31 December 2019.

In the year 2015, HF Development and Investment Limited, 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 was secured by the land where the development was taking place. The loan was fully paid off during the year.

In 2017, HF Development and Investment Limited entered into a financing arrangement with Cresent Finco LLP amounting to Kshs 1.455 Billion. The loan was fully paid off during the year as part of asset and liability transfer into a partnership between Cresent Finco and HF Development and Investment Limited as shown below;

	Kshs'000
As at 1 January	1,493,741
Interest charge and repayments	99,470
Transfer to Property Fund (Note 21)	(1,593,211)
As at 31 December	-

(b) Reconciliation of the movement in borrowings:

	Group 2019 Kshs'000	Group 2018 Kshs'000
At 1 January	10,416,938	12,991,306
Funds received and interest accrual	121,639	952,156
Payment on interest	(121,639)	(952,156)
Transfer to the property fund (Note 21)	(1,593,211)	-
Principal repayment	(3,020,004)	(2,574,368)
Net movement in borrowings	(4,613,215)	(2,574,368)
At December	**5,803,723**	**10,416,938**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

33. CORPORATE BOND

	2019	2018
	Kshs'000	Kshs'000
Opening balance	3,051,811	3,047,369
Interest accrual	308,775	394,536
Payments on interest	(308,775)	(390,094)
Principal repayment	(3,051,811)	-
Net movement in borrowings	-	4,442
Closing balance	**-**	**3,051,811**

In 2012, HF Group Plc 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%. The term note is payable in on 14 October 2019.

In 2010, HF Group Plc raised Kshs 7,030,900,000 under the 7 year MTN whose programme size was 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 were Kshs 1,165,500,000. The floating rate notes were 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. The first tranche of Kshs 7,030,900,000 was successfully redeemed on 2 October 2017 while the second tranche of Kshs 2,969,100,000 was redeemed on 14 October 2019.

The corporate bond was transferred from HF Group Plc to HFC Limited with effect from 3 August 2015.

34. CAPITAL AND RESERVES

Group and Company:

(a) Ordinary share capital	2019	2018
	Kshs'000	Kshs'000
Authorised:		
At 1 January and 31 December 2019		
500,000,000 (2018 – 500,000,000) ordinary shares of Kshs 5.00 each	2,500,000	2,500,000
Issued and fully paid:		
At 1 January:		
384,614,168 (2018 – 349,381,667) ordinary shares of Kshs 5.00 each	1,923,071	1,747,683
2019 – Nil (2018 – 34,957,501) bonus shares of Kshs 5.00 each	-	174,788
2019 – Nil (2018 – 120,000) ordinary shares of Kshs 5.00 each		
issued in the year	-	600
At 31 December		
384,614,168 (2018 – 384,614,168) ordinary shares of Kshs 5.00 each	**1,923,071**	**1,923,071**

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 384,614,168 as at 31 December 2019 (2018 – 384,614,168). In 2018, 120,000 shares were issued under employee share ownership program at Kshs 10 per share leading to a share premium of Kshs 600,000 (Kshs 5 per share).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

34. CAPITAL AND RESERVES (continued)

Group and Company (continued)

(b) Share premium

This reserve arises when the shares of the company are issued at a price higher than the nominal (Par) value. In 2018, 120,000 shares were issued under employee share ownership program at Kshs 10 per share leading to a share premium of Kshs 600,000 (Kshs 5 per share).

	2019 Kshs '000	2018 Kshs '000
At 1 January	4,343,512	4,342,912
2019 – Nil (2018 – 120,000) Ordinary shares of Kshs 5.00 each issued in the year at Kshs. 10.00 each	-	600
At 31 December	**4,343,512**	**4,343,512**

(c) Revaluation reserve

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

	2019 Kshs'000	2018 Kshs'000
As at 1 January 2019	180,440	179,580
Change in fair value during the period:		
Motor vehicle	-	860
As at 31 December 2019	**180,440**	**180,440**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

34. CAPITAL AND RESERVES (continued)

(d) Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with

the Prudential Guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential Guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt investments and treasury bonds held at FVOCI (2018 - FVOCI) until the investment is derecognised when the net changes are recycled to profit or loss.

	2019	2018
	Kshs'000	Kshs'000
At 1 January	(5,961)	(48,226)
Change in fair value during the year:		
Fair value movement on treasury bonds		
classified as FVOCI	104,247	60,379
Less: Related tax	(31,274)	(18,114)
At 31 December	67,012	(5,961)

35. SHAREHOLDERS' INCOME NOTES AND LOANS

	2019 Kshs'000	2018 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

36. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Group reconciliation of operating loss to net cash flows from operating activities

	2019	2018
	Kshs'000	Kshs' 000
Loss before taxation	(137,802)	(642,744)
Adjustments for:		
Profit on investment in joint ventures	(2,128)	(8,941)
Interest expense on lease liability	63,967	-
Depreciation of property and equipment	153,325	181,033
Amortisation of right of use asset	70,832	643
Amortisation of investment property	21,847	-
Amortisation of intangible assets	211,918	200,105
Gain on land transferred to HFDI LLP	(553,350)	-
Loss on sale of property and equipment	(4,132)	(89)
Increase/(decrease) in customer and banks deposits	2,629,197	(1,445,233)
(Decrease)/increase of balances with Central Bank of Kenya –		
Cash Reserve Ratio (CRR)	(136,408)	95,787
Net movement in mortgage advances to customers		
(net of foreclosed assets)	4,115,004	5,915,972
Increase in investment in Government securities	(1,286,482)	(864,465)
Decrease/(increase) in housing projects	255,648	(123,503)
(Increase)/decrease in other assets	(499,238)	817,924
Increase/(decrease) in other liabilities	326,947	(1,898,762)
Net cash flows from operating activities before tax	**5,229,145**	**2,227,727**
Income tax paid	(23,940)	(23,341)
Net cash flows from operating activities	**5,205,205**	**2,204,386**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

36. NOTES TO THE STATEMENT OF CASH FLOWS(continued)

(b) Analyses of cash and cash equivalents

	2019	2018	Change in the year
	Kshs'000	Kshs'000	Kshs'000
Cash in hand and bank	1,033,134	1,104,377	(71,243)
Balances due from banking institutions	804,645	1,904,995	(1,100,350)
	1,837,779	**3,009,372**	**(1,171,593)**

(c) Company reconciliation of operating (loss)/profit to net cash flows from operating activities

	2019	2018
	Kshs'000	Kshs'000
(Loss)/profit before taxation	(44,567)	29,598
Depreciation	144	142
Decrease/(increase) in other assets	26,634	(10,172)
Increase in other liabilities	48,755	140,266
Loss on sales of property and equipment	260	-
Net cash flows from operating activities before tax	**31,226**	**159,834**
Income tax paid	(9,024)	(11,621)
Net cash flows from operating activities	**22,202**	**148,213**

(d) Company analyses of cash and cash equivalents

	2019	2018	Change in the year
	Kshs'000	Kshs'000	Kshs'000
Cash in hand and bank	**31,156**	**34,167**	**(3,011)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

37. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2019, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2019	2018
	Kshs'000	Kshs'000
Guarantees	82,351	178,157
Letters of credit	9,591	6,603
	91,942	**184,760**

(b) Other contingent liabilities

In the ordinary course of business, the Group 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 successfully be defended and therefore no provision has been made in the financial statements. The significant claims are described below:

- ICEA LION Group (ICEA) has sued HFC Limited, a subsidiary of HF Group Plc, and others for loss of Kshs 120m which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stock Brokers. The Company's advocates have filed a defence against ICEA.
- Sharok Kher Mohamed sued HFC Limited, a subsidiary of HF Group Plc, for selling the property by public auction in 2000. In 2015, the High Court awarded the plaintiff Kshs 20 million plus interest from January 2000. HFC Limited appealed against this judgment to the Court of Appeal which later upheld the judgment of the High Court. The amount as at date of Court of Appeal ruling was Kshs 1.2 billion. HFC Limited has appealed against the judgment and the matter is pending in the Supreme Court. Directors, with advice from their external legal counsel believe that the defence against the action will be successful.

38. LEASES

The Group as a lessee

The Group leases a number of branch and office premises. The leases typically run for a period between 3 and 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

38. LEASES (continued)

The Group as a lessee (continued)

(i) Right of use assets

Right-of-use assets relate to leasehold land, leased branches and office premises.

	Leasehold land (formerly prepaid operating lease rentals (Note 24))	Office premises	IT equipment	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost				
At 1 January 2019	54,612	621,079	-	675,691
Additions	-	-	219,903	219,903
At 31 December 2019	**54,612**	**621,079**	**219,903**	**895,594**
Depreciation				
At 1 January 2019	(11,328)	(178,309)	-	(189,637)
Depreciation charge for the year	(643)	(58,736)	(11,453)	(70,832)
At 31 December 2019	**(11,971)**	**(237,045)**	**(11,453)**	**(260,469)**
Carrying amount At 31 December 2019	**42,641**	**384,034**	**208,450**	**635,125**

As at 31 December 2019, the un-expired lease period ranges from 58 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.

At 31 December 2019, the future minimum lease payments under cancellable and non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2019 Kshs '000
Less than one year	133,651
Between one and five years	739,535
More than five years	189,381
Total undiscounted lease liabilities at 31 December	1,062,567

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

38. LEASES (continued)

The Group as a lessee (continued)
(i) Right of use assets (continued)

	2018 Kshs'000
Less than one year	99,294
Between one and five years	172,666
More than five years	-
Total undiscounted lease liabilities at 31 December	**271,960**

(ii) Amounts recognised in profit or loss

2019 – Leases under IFRS 16	**Kshs'000**
Interest on lease liabilities	63,967
Interest on asset retirement obligation	1,524
Expenses relating to short term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
2018 – Operating leases under IAS 17	
Lease expense	114,875

(iii) Amounts recognised in statement of cash flows

Total cash outflow for leases	129,872

(iv) Lease liability

The movement in lease liabilities during the year is as follows:

	2019 Kshs'000	2018 Kshs'000
At 1 January 2019	560,753	-
Interest on lease liability	63,967	-
Additions	219,903	-
Lease payments	(129,872)	-
	714,751	**-**

38. LEASES (continued)

The Group as a lessee (continued)

(v) Extension options

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group as a lessor

The Group leases out part of its property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.
Rental income earned during the period was Kshs 105,194,112 (2018 – Kshs 98,662,226).
The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

2019 – Operating leases under IFRS 16	**Kshs '000**
Within one year	36,085
One to five years	113,528
After five years	9,820
	159,433
2018 – Operating leases under IAS 17	
Within one year	45,191
In second to fifth year inclusive	121,768
After five years	652
	167,611

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

39. MORTGAGE COMMITMENTS

Group:

Loan commitments amounting to Kshs 1,148,828,000 (2018 – Kshs 1,875,523,000) are analysed below:

	2019 Kshs'000	2018 Kshs'000
Commitment in principle but not authorised for payment	1,148,828	1,575,411
Authorised but not paid	-	300,112
	1,148,828	**1,875,523**

40. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, there were no assets pledged by the Group to secure liabilities nor secured Group liabilities.

41. RELATED PARTY TRANSACTIONS

Group:

(a) Loans

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

	2019 Kshs'000	2018 Kshs'000
At 1 January	873,685	1,024,499
Loans advanced during the year	258,187	188,249
Loans repayments received	(318,423)	(339,063)
At 31 December	**813,449**	**873,685**
Comprising:		
Mortgages and advances	647,167	733,826
Personal loans	158,899	124,022
Staff car loans	7,383	15,837
At 31 December	**813,449**	**873,685**

Interest income arising from these employees' facilities amounted to Kshs 54,186,717 (2018 – 73,926,421).

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

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

(c) Compensation to senior management including executive directors for the year ended 31 December 2019 amounted to Kshs 155,971,644 (2018 – Kshs 227,105,141).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

41. RELATED PARTY TRANSACTIONS (continued)

	2019	2018
	Kshs'00	Kshs'000
(d) Transactions with Britam Insurance Company (Kenya) Limited		
Bank balances held with HFC Limited	138,649	163,152
(e) Transactions with Britam Assets Managers Limited		
Bank balances held with HFC Limited	1,208,330	1,500,000
(f) Transactions with Precious Heights Limited		
Bank balances held with HFC Limited	1,329	1,224
(g) Transactions with Kahawa Downs Limited		
Bank balances held with HFC Limited	84,570	7,633
(h) Transactions with Housing Finance Development and Investment Property Fund		
Bank balances held with HFC Limited	35,233	-
(i) Transactions with Pioneer International College		
Loans and advances held with HFC Limited	128,596	193,224
(j) Transactions with Agricultural and Industrial Holdings Ltd		
Loans and advances held with HFC Limited	127,060	139,294

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

42. PRIOR YEAR RESTATEMENTS

During the year, the Group reclassified K-Mall from the property and equipment category to investment property category. The Group also restated the carrying amount of the investment in joint venture to align with the Group's share of net assets in the joint venture. The affected financial statement line items for prior periods have been updated.

The following tables summarise the impacts on the Group's consolidated financial statements.

Consolidated statement of financial position

	As previously reported at 31 December 2018	Adjustments	As restated at 31 December 2018
	Kshs'000	Kshs'000	Kshs'000
Assets			
Investment in joint ventures	1,690,210	38,876	1,729,086
Property and equipment	2,078,978	(733,665)	1,345,313
Investment property	-	733,665	733,665
Others	56,780,162	-	56,780,162
Total assets	**60,549,350**	**38,876**	**60,588,226**
Liabilities			
Other liabilities	1,382,272	38,876	1,421,148
Others	48,795,847	-	48,795,847
Total liabilities	50,178,119	38,876	50,216,995
Total equity	**10,371,231**	**-**	**10,371,231**
Total liabilities and shareholders' equity	**60,549,350**	**38,876**	**60,588,226**

43. SUBSEQUENT EVENTS

(i) Subsequent event – Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries affected at 17 March 2020, including Kenya. The global reactions and responses to the Covid-19 pandemic continue to evolve and change as the virus affects the daily operations and economics of many businesses. The work-from-home arrangements, observance of social distancing, cancellation of meetings and the general restrictions of movement of people is expected to force businesses into a widespread economic uncertainty. The pandemic, now gaining ground in Kenya, will impact the Bank and Group especially on operations and the way of doing business. The Covid – 19 epidemic remains the greatest source of risks to economic performance. The likely impact of these challenges depends on the efficacy of the control and mitigation measures being put in place.

43. SUBSEQUENT EVENTS (continued)

(i) Subsequent event – Covid-19 Pandemic (continued)

Some of the unavoidable modifications include the incentive plans to customers in line with the president's directive to make transaction costs affordable and promote mobile, internet and card payments. The Bank and Group may relax certain employee performance conditions, and invest more on health and safety including but not limited to designating new work places to avoid crowding.

Scaled-down economic activity and reduced demand will require the bank to review customers loan covenants as the risk of default will certainly rise.

The Government of Kenya has put in place measures to cushion businesses from the negative impact of the Covid-19 pandemic. The measures included, among others, the lowering of the Central Bank Rates (CBR) from 8.25% to 7.25%, lowering of income tax rates and value added tax and reduction of the Cash Reserve Ratio (CRR) from 4.25% to 5.25%. These measures will translate to more business loans take ups on one hand and improved liquidity on the other. These initiatives will mitigate adverse impacts on the economy as well as on the banking sector. However, the temporary suspension of the listing with Credit Reference Bureaus (CRB) may hurt the financial institutions as borrowers may advertently default current obligations.

As the real economic impact of the Covid-19 pandemic unfolds, the Bank and Group have proactively put in place strategies to ensure business continuity and protection of personnel to keep the main functions of the bank in operation. The legal department has assessed our contracts with staff and other stakeholders to ensure the bank does not incur legal liabilities as a result of mitigation measures taken to stay afloat during this period. With respect to the expected decline in cash flows, the bank is keenly observing due dates for vendor payments and borrowings to make sure all obligations are met as they fall due.

As at the date of approval of the financial statements, the potential economic impact to the Group had not been determined. The situation continues to be monitored and remedial measures taken as directed by the authorities.

Management's assessment is that the Group will continue to operate on a going concern basis before and after the Covid-19 pandemic.

(ii) Kahawa Downs Limited – Liquidation

In 2013, HF Group Plc entered into a joint venture in the name of Kahawa Downs Limited with a land owner for development of housing units (apartments) in Kahawa Wendani, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding.

On 3 August 2015, HF Group Plc transferred its entire shareholding to HFC Limited. The project has since been completed.

Subsequent to the financial reporting date the directors of Kahawa Downs Limited made a resolution to wind up the joint venture and appointed a transaction team to guide the board on the winding up process and final distribution of the net assets. This process is currently ongoing.

(iii) Theta Dam Limited

In 2016, HFDI Limited, a subsidiary of the group entered into a joint venture in the name of Theta Dam Estate Limited with a land owner for mixed development of housing units in Ruiru along Kiganjo Road, Kiambu. The entity is jointly controlled with HFDI Limited controlling 50% of the shareholding.

Subsequent to the financial reporting date the directors of Theta Dam Limited made a resolution to convert the joint venture from a limited liability company to a limited liability partnership where both parties will be equal partners. The objective of the joint venture remained the same. The process of the conversion is ongoing.

PROXY FORM

HF GROUP PLC
(the "Company")

CDC A/C No:
Shareholder No:
ID/Registration No:

FORM OF PROXY-2020 ANNUAL GENERAL MEETING(AGM)

Please complete in BLOCKS CAPITALS

I/We ____

of ____

Being a shareholder /shareholders of **HF Group Plc** hereby appoint

____

of ____

Being a shareholder of the Company hereby appoint the Chairman of the meeting or (see) note 3 ……………………………………......... (Name of Proxy) in respect of my…………………………….(Number of shares) as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Virtual Annual General Meeting of the company to be held electronically and chaired from the Company's Registered office on 2nd Floor, Rehani House, Kenyatta Avenue/Koinange Street, Nairobi at 2.00 p.m. on Friday 10th July 2020 and at any adjournment thereof.

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with 'X'. If no indication is given, my/our proxy will vote or withhold his or her discretion and I/WE authorise my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matter which is properly put before the meeting.

Please clearly mark the box below to instruct your proxy how to vote

Item No.	Resolutions:	For	Against	Withheld
1)	To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2019, together with the Chairman's, the Directors' and Auditor's Reports thereon.			
2)	To note that the Directors do not recommend the payment of a dividend for the year ended 31st December 2019.			
3)	Re-appoint Ms. Felister Kembi who retires at this meeting in accordance with the provisions of Article 105 of the Company's Articles of Association, and, being eligible, offers herself for re-election			
4)	Re-appoint Dr. Peter Munga who retires at this meeting in accordance with the provisions of Article 105 of the Company's Articles of Association, and, being eligible, offers himself for re-election			
5)	Re-appoint Dr. Peter Munga, who having attained the age of seventy years 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.			

PROXY FORM

6)	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			
	• Ms. Gladys Karuri			
7)	To receive, consider and, if thought fit, approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.			
8)	To appoint PricewaterhouseCoopers (PWC) Kenya as the new auditors of the Company in place of KPMG Kenya (whose term expires at the end of this meeting) in accordance with Sections 721 and 724 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix their remuneration.			
9)	"That, by way of special resolution Articles 59 and 60 of the Articles of Association of the Company be and are hereby amended to provide for holding of Annual General Meetings and Extraordinary General Meetings virtually and for voting to be carried out by electronic means".			

HF GROUP PLC ELECTRONIC COMMUNCATION PREFERENCE FORM

Please complete in BLOCK CAPITALS

Full name of member(s)……

………

………

Address……

………

………

CDSC No (If known ……

(This can found on your CDSC Statement)

Mobile Number (of the proxy holder)

Date: ……………………………………………………………………………

Please tick the boxes below and return to Image Registrar at P.O Box 92877, GPO 00100, 5th Floor, ABSA Towers (formerly Barclays Plaza), Loita Street or alternatively to the registered office of the Company so as to arrive not later than Wednesday, 8th July 2020 at 10.00 am.

Approval of Registration

I/WE approve to register to participate in the virtual AGM to be held on Friday 10th July, 2020.

Date: ……………………………………………………

Consent for use of the Mobile Number provided

I/WE would give/our consent for the use of the mobile number provided for purposes of voting at the AGM.

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned to the Company Secretary P.O. Box 30088 GPO 00100 Nairobi or physically to the registered office of the Company, or to Image Registrars on P. O. Box 9287 – 00100, Nairobi, Kenya or through their email address info@image.co.ke to arrive not later than 10:00 a.m. on 8th July, 2020 i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint as a proxy any other person, delete the words "the Chairman of the Meeting or" and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the form of proxy will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.
5. To be valid the form of proxy should be completed, signed and delivered (together with a power of attorney or other authority (if any) under which it is assigned or a notarized certified copy of such power or authority) to Company Secretary, P.O. Box 30088 GPO 00100 Nairobi or Image Registrars, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street and address P.O. Box 9287-00100 Nairobi not later than 10.00 am on 8th July 2020 or, in the case of a poll taken subsequent to the date of the meeting, or any adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll which is taken more than 48 hours after the day of the meeting or adjourned meeting.
6. In the case of a company being a shareholder then this proxy form must be executed under its common seal or signed on its behalf by an officer of that company or an authorized attorney for that company.

FOMU YA UWAKILISHI

HF GROUP PLC
(kampuni")

NAMBARI YA AKAUNTI YA CDC
Nambari ya mwanahisa:
Kitambulisho/namba ya usajili

FOMU YA UWAKALA – MKUTANO WA PAMOJA WA MWAKA 2020

Tafadhali jaza kwa HERUFI KUBWA

Mimi /sisi ____

Kutoka ____

Kama mwanahisa/ wanahisa wa HF Group Plc twamteua

____

____

kutoka____

Kama mwanahisa wa Kampuni namteua Mwenyekiti wa Mkutano au (angalia) nukuu 3 ………. (jina la wakala) kuhusiana na mimi……. (idadi ya hisa) kuwa wakala wangu/wetu ili kuhudhuria, kuwakilisha na kupiga kura kwa niaba yangu/sisi wakati mkutano mkuu wa pamoja wa mwaka utakaofanyika kwa mfumo wa kielektroniki na kuendeshwa kutoka ofisi za kampuni zilizosajiliwa katika orofa ya 2 Jumba la Rehani, Kenyatta Avenue/Koinange Street, Nairobi kuanzia saa nane adhuhuri siku ya Ijumaa Julai 10, 2020 au kuahirishwa kwake.

MIMI/ SISI namwamrisha wakala kupiga kura kuhusu azimio lifuatalo kama nilivyoonyesha /tulivyoonyesha kwa kuweka alama inayofaa ya '' X''. Endapo hakuna ishara yoyote iliyotolewa wakala wangu/wetu atapiga kura au kuficha jina lake na ninampa ruhusa/twampa ruhusa wakala wangu/wetu kupiga kura (au kutopiga kura) kama anavyoona inafaa kuhusiana na maswala mengine yatayowekwa wazi kabla ya kuanza kwa mkutano.

Tafadhali weka alama inayopasa kumwelekeza wakala wako jinsi ya kupiga kura.

No.	maazimio	Nakubali	Na pinga	Nyamaza
1)	Kupokea na endapo itakubaliwa, kupitisha hesabu za pesa zilizokaguliwa kwa kipindi cha mwaka uliomalizika Desemba 31, 2019 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa.			
2)	Kutambua kwamba wakuruegnzi hawatoi pendekezo la malipo ya mgawo wa faida kwa kipindi cha mwaka uliomalizika Desemba 31,2019.			
3)	Kumteua tena Bi. Felister Kembi ambaye anastaafu wakati wa mkutano huu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena.			
4)	Kumteua tena Dkt. Peter Munga anayestaafu wakati wa mkutano huu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena.			
5)	Kumteua tena Dkt. Peter Munga ambaye amefikisha umri wa miaka 70 anastaafu kwa mujibu wa taratibu za maadili ya usimamizi wa mashirika kuhusu utoaji wa dhamana za umma ya mwaka 2015 na anajitokeza ili kuchaguliwa tena.			

FOMU YA UWAKILISHI

6)	Wakurugenzi wafuatao ambao ni wanachama wa kamati ya halmashauri ya kundi kuhusu uhasibu na athari wachaguliwe ili waendelee mbele na jukumu lao katika kamati iliyotajwa: • Bi. Felister Kembi			
	• Bw. Adan Mohamed			
	• Bi. Gladys Karuri			
7)	Kupokea, kuangazia na endapo itaonekana kuwa sawa, kuidhinisha ripoti ya marupurupu ya wakurugenzi na kuaimuru Halmashauri kuamua kiwango cha marupurupu ya wakurugenzi.			
8)	Kuwateua PricewaterhouseCoopers (PWC) Kenya kama wakaguzi wapya wa pesa wa kampuni ili kuchukua nafasi ya KPMG Kenya (ambao muda wao wa kuhudumu unaisha baada ya kukamilika kwa mkutano huu) kwa mujibu wa sehemu ya 721 na 724 ya sheria za makampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu yao.			
9)	"Kwamba, kwa njia ya azimio maalumu vifungu nambari 59 na 60 vya sheria za makampuni vifanyiwe marekebisho ili kutoa nafasi ya mkutano wa pamoja wa mwaka na mikutano mingine isiyo ya kawaida kufanyika bila kuwakutanisha watu na kuwezesha upigaji kura kutekelezwa kwa mfumo wa kielektroniki"			

FOMU YA MAWASILIANO YA KIELEKTRONIKI YA HF GROUP PLC
Tafadhali jaza kwa kutumia HERUFI KUBWA
Majina kamili ya mwanachama/ wanachama

....

....

Anwani ....

....

....

Namba CDSC (endpo inajulikana ....
(Hii inaweza kupatikana kupitia taarifa (statement) yako ya CDSC)

Nambari ya simu ya mkono (ya anayewakilishwa na wakala)

Tarehe: ....

Tafadhali weka alama kwenye masanduku yaliyoko hapa chini na kurejesha kwa Image Registrar SLP 92877, GPO 00100, Orofa ya 5 Jumba la, ABSA Towers (zamani likijulikana kama Barclays Plaza), Loita Street au kwa ofisi ya Kampuni iliyosajiliwa ili kupokelewa kabla ya siku ya Jumatano Julai 8, 2020 saa nne asubuhi.

Kuidhinishwa kwa usajili.

MIMI/SISI twaidhinisha kusajiliwa ili kushiriki kwenye mkutano wa pamoja wa mwaka utakaofanyika Ijumaa Julai 10,2020

Tarehe: ....

Ruhusa kwa matumizi ya simu ya mkononi kupitia nambari iliyotolewa

MIMI/SISI tumetoa ruhusa kwa matumizi ya simu ya mkononi kupitia nambari zilizotolewa kwa madhumuni ya kupiga kura wakati wa mkutano wa pamoja wa mwaka.

Nukuu:

1. Endapo mwanachama hataweza kuhudhuria mkutano binafsi, fomu hii ya uwakilishi ijazwe na kurejeshwa kwa Katibu wa Kampuni Slp 30088 GPO 00100 Nairobi au kupelekwa moja kwa moja kwa Ofisi za Kampuni zilizosajiliwa au kwa Image Registrars Slp 9287-00100 Nairobi, Kenya au kupitia anwani ya barua pepe info@image.co.ke ili kupokelewa kabla ya saa nne asubuhi Julai 8, 2020, saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.
2. Endapo mwanachama ni shirika, ni lazima fomu ya uwakilishi iwe imepigwa mhuri rasmi au kutiwa sahihi na Afisa au kuidhinishwa na Wakili wa Shirika hilo.
3. Kama mwanahisa, unaruhusiwa kuteua wakala mmoja au kadhaa ili kutekeleza majukumu yako yote kama mwanahisa, kuhudhuria,kuongea na kupiga kura kwa niaba yako wakati wa Mkutano. Uteuzi wa Mwenyekiti kama Wakala wakati wa Mkutano umejumuishwa kwa sababu ya urahisishaji. Ili kumteua mtu mwingine yeyote kama wakala, futilia mbali neno '' Mwenyekiti wa Mkutano'' na kuingiza jina kamili la wakala wako katika nafasi iliyoachwa wazi. Si lazima kwa wakala kuwa mwanahisa wa kampuni.
4. Ujazaji na uwasilishaji wa fomu ya uwakala hautakuzuia wewe kuhudhuria mkutano na kupiga kura binafsi lakini kura zilizopigwa na wakala wako hazitajumuishwa.
5. Ili kukubalika, fomu ya uwakala ijazwe, itiwe sahihi na kuwasilishwa (pamoja na idhini ya wakili au mtu mtu mwingine (endapo yuko) aliyeidhinishwa na kupewa majukumu kisheria au halmashauri) kwa katibu wa kampuni Slp 30088 GPO 00100 , Nairobi au Image Registrars , Absa Towers (zamani Barclays Plaza) Orofa ya 5 , Loita Street kupitia Anwani 9287-00100 Nairobi kabla ya Julai 8, 2020 saa nne asubuhi au kwa hali ambapo uchaguzi utafanyika baada ya tarehe ya mkutano au kuahirishwa kwake saa 48 kabla ya muda uliowekwa ili kufanyika kwa uchaguzi ambao umepangwa kufanyika saa 48 baada ya siku ya mkutano au kuahirishwa kwake.
6. Kwa hali ambapo kampuni ni mwanahisa, fomu hii ya uwakala iwe imepigwa rasmi mhuri wake au kutiwa sahihi kwa niaba yake na Afisa wa Kampuni au Wakili wa Kampuni hiyo.

HF Group

• Tel: 0709 438 800 • Toll Free: 0800 721 400
• Email: housing@hfgroup.co.ke • www.hfgroup.co.ke

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